NEW ISSUE BOOK ENTRY RATING: Moody's: Aaa Standard & Poor's: AAA Fitch: AAA

In the opinion of Briggs and Morgan, Professional Association, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, at the time of their issuance and delivery to the original purchaser, interest on the Revenue Bonds is excluded from gross income for purposes of United States income tax and is excluded, to the same extent, in computing both gross and taxable net income for purposes of State of Minnesota income tax (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions). Interest on the Revenue Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations; however, interest on the Revenue Bonds is taken into account for the purpose of determining adjusted current earnings for purposes of computing the federal alternative minimum tax imposed on corporations. No opinion will be expressed by Bond Counsel regarding other state or federal tax consequences caused by receipt or accrual of interest on the Revenue Bonds or arising with respect to ownership of the Revenue Bonds. See "TAX EXEMPTION" and "OTHER FEDERAL TAX CONSIDERATIONS" herein.

\$29,000,000 STATE OF MINNESOTA Retirement System Building Revenue Bonds, Series 2000

Dated: June 1, 2000 Due: June 1, as shown below

		Interest	Price or			Interest	Price or
<u>Year</u>	Amount	<u>Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>
2002	\$425,000	5.375%	4.75%	2012	\$700,000	5.450%	5.47%
2003	\$450,000	5.375	4.90	2013	\$750,000	5.500	5.53
2004	\$475,000	5.375	4.97	2014	\$775,000	5.550	5.59
2005	\$500,000	5.375	5.00	2015	\$825,000	5.600	5.65
2006	\$525,000	5.375	5.06	2016	\$875,000	5.650	5.70
2007	\$550,000	5.375	5.15	2017	\$925,000	5.700	5.75
2008	\$575,000	5.375	5.20	2018	\$975,000	5.750	5.79
2009	\$600,000	5.375	5.25	2019	\$1,050,000	5.750	5.82
2010	\$625,000	5.375	5.30	2020	\$1,100,000	5.800	5.85
2011	\$675,000	5.400	@100				

\$2,425,000 5.875% Term Bond due June 1, 2022 at 5.92%. \$7,475,000 5.875% Term Bond due June 1, 2027 at 5.98%. \$5,725,000 6.00% Term Bond due June 1, 2030 at Par.

(Plus accrued interest from June 1, 2000)

THE RETIREMENT SYSTEM BUILDING REVENUE BONDS, SERIES 2000 (THE "REVENUE BONDS") ARE BEING ISSUED UNDER AND PURSUANT TO MINNESOTA STATUTES, SECTION 356.89, AND AN ORDER OF THE COMMISSIONER OF FINANCE DATED JUNE 1, 2000 (THE "ORDER"), AND ARE SPECIAL OBLIGATIONS OF THE STATE PAYABLE SOLELY FROM AND SECURED BY CERTAIN PLEDGED ASSETS. THE PLEDGED ASSETS INCLUDE CERTAIN PAYMENTS MADE BY STATE OF MINNESOTA STATE RETIREMENT SYSTEM, TEACHERS RETIREMENT ASSOCIATION, AND PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (COLLECTIVELY, THE "RETIREMENT SYSTEMS"), HELD IN THE PENSION BUILDING DEBT SERVICE FUND AND CERTAIN AVAILABLE ASSETS OF THE RETIREMENT SYSTEMS TO THE EXTENT AND IN THE MANNER SET FORTH IN A JOINT PAYMENT AND PLEDGE AGREEMENT BETWEEN THE COMMISSIONER OF FINANCE AND THE RETIREMENT SYSTEMS. THE REVENUE BONDS ARE NOT GENERAL OBLIGATIONS OF THE STATE, AND ARE NOT SECURED BY THE PLEDGE OF THE FULL FAITH AND CREDIT AND TAXING POWERS OF THE STATE. THE REVENUE BONDS AND THE INTEREST THEREON ARE NOT PAYABLE, IN WHOLE OR IN PART, FROM ANY STATE TAX.

The State has elected not to insure this issue.

The State may elect on June 1, 2010, and on any day thereafter, to prepay Bonds due on or after June 1, 2011 at a price of par plus accrued interest.

Form and Payment:

The Revenue Bonds will be available to purchasers in book entry form only, and initially will be registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Revenue Bonds. The Chase Manhattan Bank, N.A. in New York, New York will act as Bond Registrar and Paying Agent for the Revenue Bonds.

The Revenue Bonds are offered by the State subject to the legal opinion of Briggs and Morgan, Professional Association, Bond Counsel, as to the validity of the Revenue Bonds and tax exemption, and of the State Attorney General as to the validity and enforceability of the Joint Payment and Pledge Agreement. Delivery will be made on or about June 20, 2000.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Unless otherwise indicated, information contained in this Official Statement is based upon material provided by the State and the Retirement Systems and available at the date of publication of the Official Statement.

No dealer, broker, salesman or other person has been authorized by the State or the Retirement Systems to give any information or to make any representations with respect to the Revenue Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the State or the Retirement Systems. Certain information contained herein has been obtained from sources other than records of the State or the Retirement Systems and is believed to be reliable, but it is not guaranteed. Information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there have not been any changes in the affairs of the State since the date hereof.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE RETIREMENT SYSTEMS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY REGULATORY AUTHORITY. FURTHERMORE, NO REGULATORY AUTHORITY HAS CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Revenue Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

FLORIDA SECURITIES LAW DISCLOSURE

Section 517.051 Florida Statutes, 1987, as amended, provides for the exemption from securities registration of certain governmental securities, provided that, if an issuer of governmental securities has been in default at any time after December 31,1975 as to principal or interest on any obligation, its securities may not be offered or sold in Florida pursuant to the exemption, except by means of an offering circular containing full and fair disclosure, as prescribed by rules of the Florida Department of Banking and Finance (the "Department"). Under the rules of the Department, the prescribed disclosure is not required if the information is not an appropriate disclosure because the information would not be considered material by a reasonable investor.

Agencies of the State, other than the Retirement Systems, have issued obligations for the purpose of financing projects or enterprises which are or were payable from specified revenue sources or from the revenues of a specific project. Such obligations issued by agencies of the State may have been, or may be, in default as to payment of principal or interest. However, since the source of payment or any such defaulted obligations is separate and distinct from the source of payment for the Revenue Bonds, a default on such obligation is not considered a material fact with respect to the payment of the Revenue Bonds.

STATE OF MINNESOTA OFFICERS

GOVERNOR Jesse Ventura
LIEUTENANT GOVERNOR Mae Schunk
STATE TREASURER Carol C. Johnson
STATE AUDITOR Judith H. Dutcher
ATTORNEY GENERAL
LEGISLATIVE AUDITOR James R. Nobles

COMMISSIONER OF FINANCE

Pamela Wheelock

RETIREMENT SYSTEMS EXECUTIVE DIRECTORS

Minnesota State Retirement System
Public Employees Retirement Association
Teachers Retirement Association

David Bergstrom
Mary Most Vanek
Gary Austin

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INTRODUCTION

General

This Official Statement, including the cover page and Appendices A through H (the "Official Statement"), has been prepared by the State of Minnesota Department of Finance and the Retirement Systems to furnish information relating to \$29,000,000 Retirement Systems Building Revenue Bonds, Series 2000 of the State of Minnesota (the "State") dated as of June 1, 2000 (the "Revenue Bonds"), to prospective purchasers and purchasers of the Revenue Bonds. This Introduction contains only a brief description of or references to a portion of such information, and prospective purchasers and purchasers should read the entire Official Statement. Terms which are capitalized in the text of this Official Statement are defined in Appendix A or the text. These definitions should be read in conjunction with the text.

Authorization and Purpose

The Revenue Bonds are being issued by the State, acting by and through its Commissioner of Finance (the "Commissioner"), pursuant to Minnesota Statutes, Section 356.89 (the "Act"). The Revenue Bonds are being issued to finance the acquisition, design, construction and equipping of a building and related facilities (collectively, the "Facility") to be jointly occupied by the Minnesota State Retirement System ("MSRS"), the Teachers Retirement Association ("TRA") and the Public Employees Retirement Association ("PERA") (collectively, the "Retirement Systems"). The Retirement Systems were each established by the Minnesota Legislature to administer three separate pension plans. For a description of the Retirement Systems see the information herein under the heading "THE RETIREMENT SYSTEMS." For a more detailed description of the Facility see the information herein under the heading entitled "THE FACILITY".

Bond Terms

The Revenue Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the cover page hereof. Such interest is computed on the basis of a 360-day year of twelve 30-day months, and is payable semiannually on each June 1 and December 1 to maturity or prior redemption, commencing December 1, 2000. If principal or interest is due on a date on which commercial banks located in the State are not open for commercial business, then payment will be made on the first day thereafter when such banks are open for business. The Revenue Bonds are subject to redemption and prepayment at the option of the State on the terms and conditions stated in the section hereof entitled "THE REVENUE BONDS - Redemption and Prepayment."

Security

The Revenue Bonds are being issued under and pursuant to the Act and an Order of the Commissioner of Finance dated as of June 1, 2000 (the "Order"). The Revenue Bonds constitute valid and binding special obligations of the State payable solely from and secured by certain Pledged Assets as provided in the Joint Payment and Pledge Agreement and the Order. The Pledged Assets comprise semiannual payments made by the Retirement Systems pursuant to the Joint Payment and Pledge Agreement for deposit in the Pension Building Debt Service Fund and certain Available Assets of the Retirement Systems to the extent set forth in the Joint Payment and Pledge Agreement. Pursuant to the Joint Payment and Pledge Agreement each Retirement System has granted the Commissioner a security interest in a portion of its Available Assets to secure payment of their respective Debt Service Payments. The pledge and security interest attaches to the Available Assets only upon the occurrence of a Debt Service Payment Default, and only in the amount of the Debt Service Payment then in default. See the information herein under the heading "SECURITY FOR THE REVENUE BONDS" and the summary of the Joint Payment and Pledge Agreement included in Appendix B attached hereto. The Available Assets do not include, among other things, amounts reserved for various retirement annuities and benefits and deposited in the Minnesota Post-Retirement Investment Fund created under Minnesota Statutes, Section 11A.18. See the definition of Excluded Assets in Appendix A attached hereto for a complete definition of amounts which are excluded from the definition of Available Assets. The financial statements of each of the Retirement Systems for the Fiscal Year ending June 30,1999 are included in Appendix C attached hereto.

The Revenue Bonds are not general obligations of the State and are not secured by a pledge of the full faith and credit and taxing powers of the State. The Revenue Bonds and interest thereon are not payable in whole or in part from any state tax. For further information as to the security for the Revenue Bonds and the Pledged Assets see sections herein entitled "SECURITY FOR THE REVENUE BONDS" and the summary of the Joint Payment and Pledge Agreement in Appendix B attached hereto. For information as to the credit ratings assigned to the Revenue Bonds by various rating agencies, see the section hereof entitled "RATINGS" and Appendix F.

Risk Factors

The Revenue Bonds and the interest thereon are payable solely from and secured by certain Pledged Assets as defined and provided in the Joint Payment and Pledge Agreement and the Order. The availability and sufficiency of these Pledged Assets is subject to factors over which the Commissioner, the State, and in some respects the Retirement Systems, have no control. These and related risk factors affecting the Revenue Bonds are discussed in the section of this Official Statement entitled "RISK FACTORS" and should be reviewed by prospective purchasers and purchasers of the Revenue Bonds.

Legal Opinions - Tax Exemption

The Revenue Bonds will be approved as to validity by Briggs and Morgan, Professional Association, bond counsel. The opinion as to validity and enforceability of the Joint Payment and Pledge Agreement will be rendered by the State Attorney General.

Continuing Disclosure

The Commissioner of Finance, in the Order and, together with the Retirement Systems, in a Continuing Disclosure Undertaking (the "Undertaking"), will covenant and agree for the benefit of the holders of the Revenue Bonds from time to time, to comply with the provisions of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, paragraph (b)(5); and, for this purpose, to provide to nationally recognized securities repositories and any Minnesota state information depository, annual financial information of the type included in this Official Statement, including audited financial statements of the Retirement Systems, and notice of the occurrence of events which materially affect the terms, payment, security, rating or tax status of the Revenue Bonds. The State and the Retirement Systems are the only "obligated persons" in respect of the Revenue Bonds within the meaning of paragraph (b) (5). The form of the Continuing Disclosure Undertaking is set forth in Appendix E.

Additional Information

Questions regarding the Official Statement should be directed to Peter Sausen, Assistant Commissioner, State Department of Finance, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 296-8372, or Susan Gurrola, Financial Bond Analyst, State Department of Finance, 400 Centennial Office Building, St. Paul, Minnesota 55155, telephone (651) 296-8373, or Kathleen Aho, Springsted Incorporated, 85 East Seventh Place, St. Paul, Minnesota, 55101, telephone (651) 223-3048. Questions regarding legal matters should be directed to Mary Dyrseth, Briggs and Morgan, Professional Association, W2200 First National Bank Building, 332 Minnesota Street, St. Paul, Minnesota 55101, telephone (651) 223-6625. Questions regarding legal matters relating to the Retirement Systems should be directed to Jon Murphy, State Attorney General's Office, 525 Park Street, St. Paul, Minnesota 55103, telephone (651) 296-6956. Questions regarding the Retirement Systems should be directed to David Bergstrom, Executive Director of the Minnesota State Retirement System, 300 Mid America Bank, 175 West Lafayette Road, St. Paul, Minnesota 55107, telephone (651) 296-1510.

THE REVENUE BONDS

Authorization and Purpose

The Revenue Bonds are being issued by the State, acting by and through the Commissioner, pursuant to the Act and the Order. The Revenue Bonds are being issued to finance the acquisition, design, construction and equipping of a building and related facilities (collectively, the "Facility") to be held in trust by the State for the Retirement Systems as tenants in common. The Facility will be jointly occupied by the Retirement Systems. For a more detailed description of the Retirement Systems and Facility see the sections herein entitled "THE RETIREMENT SYSTEMS" and "THE FACILITY".

Revenue Bond Terms

The Revenue Bonds mature on the dates and in the principal amounts and bear interest at the annual rates shown on the cover page hereof. Such interest is computed on the basis of a 360-day year of twelve 30-day months, and is payable semiannually on each June 1 and December 1 to maturity or prior redemption, commencing December 1, 2000. If principal or interest is due on a date on which commercial banks located in the State are not open for commercial business, then payment will be made on the first day thereafter when such banks are open for business.

Redemption and Prepayment

Optional Redemption

Revenue Bonds maturing on or before June 1, 2010 will not be subject to redemption prior to their stated maturity dates, but Revenue Bonds maturing on or after June 1, 2011 will be subject to redemption and prepayment by the State at its option on June 1, 2010 and any date thereafter, in whole or in part, in an order determined by the State and by lot within each maturity, at a price of par plus accrued interest to the date specified for redemption.

Mandatory Redemption of Term Bonds

The Term Bonds maturing on 2022, 2027, and 2030 (the "Term Bonds") are subject to mandatory sinking fund redemption and shall be redeemed in part at par plus accrued interest on the mandatory dates and in the principal amount as follows:

2022 Term Bond		2027 Term Bond		
<u>Year</u>	<u>Amount</u>	<u>Year</u>	Amount	
2021	\$1,175,000	2023	\$1,325,000	
2022*	\$1,250,000	2024	\$1,400,000	
		2025	\$1,500,000	
		2026	\$1,575,000	
		2027*	\$1,675,000	

	2030 Term Bond
Year	<u>Amount</u>
2028 2029	\$1,800,000
2029 2030*	\$1,900,000 \$2,025,000

^{*} Final Maturity

The principal amount of the 2022, 2027 and 2030 Term Bonds may be reduced through the earlier optional redemption, with any partial optional redemptions of the Term Bonds credited against future mandatory redemption requirements for such Term Bonds in such order as the State shall determine.

Notice of any redemption of Revenue Bonds will be published in financial newspapers circulated in the Minneapolis-St. Paul metropolitan area and in the Borough of Manhattan, City and State of New York, not less than thirty days before the redemption date, stating: (i) the series, original date of issue, maturity dates, CUSIP numbers, and interest rates of the Revenue Bonds to be redeemed, (ii) if less than all Revenue Bonds of any maturity are to be redeemed, the registration numbers of those to be redeemed, (iii) the principal amount to be redeemed if less than the entire principal amount of any Revenue Bond, (iv) the redemption date and price and the name and address of the paying agent where such Revenue Bonds may be presented for payment, (v) that on the redemption date the redemption price of the Revenue Bond or portions thereof to be redeemed will be payable, and (vi) that after the redemption date interest will cease to accrue or be payable thereon. Notice will also be mailed to the registered owner of any such Revenue Bond at the address shown on the bond register, not less than twenty days before the redemption date. During the period when the book entry system is in effect, the Revenue Bonds will be registered in the name of the nominee of DTC or another securities depository designated for this purpose as indicated in the section hereof entitled "THE REVENUE BONDS - Book Entry System," and thus notice of redemption will be mailed only to such securities depository which in turn is obligated to notify its participants who are obligated to notify the Beneficial Owners of the Revenue Bonds. However, the State assumes no responsibility with respect to the giving of such notice of redemption by the securities depository or its participants.

Notice of redemption having been so published and mailed, the Revenue Bonds or portion of Revenue Bonds therein specified shall be due and payable at the specified redemption date and price, with accrued interest, and funds for such payment being held by or on behalf of the paying agent so as to be available therefor, interest thereon shall cease to accrue, and such Revenue Bonds or portions thereof shall no longer be considered outstanding under the Order. The failure to publish notice of redemption shall not affect the validity or effectiveness of mailed notice, and the failure to mail notice to any registered owner, or any defect in the notice mailed to any registered owner, shall not affect the validity or effectiveness of the notice of redemption mailed to any other registered owner.

Original Issue Discount

The difference between the principal amount of the 2011 through 2020 maturities, the 2022 Term Bond and the 2027 Term Bond (the "OID Bonds") and the initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. Such original issue discount accrues actuarially on the constant interest rate basis over the term of each OID Bond and the basis of each OID Bond acquired at the initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.

Book Entry System

The Revenue Bonds will be available to the purchasers in book entry form only, and initially will be registered in the name of Cede & Co., nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Revenue Bonds. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly.

DTC will record on its books and records the names and addresses of the DTC Participants for which it holds the Revenue Bonds of the various maturities at the written direction of the successful bidder. So long as DTC or its nominee is the registered owner of the Revenue Bonds, principal and interest payments will be made to

DTC for redistribution and disbursement by it to the DTC Participants, who in turn will distribute or credit payments to the beneficial owners of the Revenue Bonds as reflected on their records (the "Beneficial Owners"). The State will not be responsible for the performance by DTC of its duties as securities depository.

Initially, and so long as DTC or another qualified entity continues to act as securities depository, the Revenue Bonds shall be issued in typewritten form, one for each maturity in a principal amount equal to the aggregate principal amount of each maturity, and shall be registered in the name of the securities depository or its nominee. Beneficial Owners will not receive certificates representing their ownership interest in the Revenue Bonds.

With respect to Revenue Bonds registered in the name of a securities depository or its nominee, the State and the registrar shall have no responsibility or obligation to any DTC Participant or any Beneficial Owner with respect to the following: (i) the accuracy of the records of any securities depository or its nominee with respect to any ownership interest in the Revenue Bonds, (ii) the delivery to any DTC Participant or any other person other than the securities depository of any notice with respect to the Revenue Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than the securities depository, of any amount with respect to the principal of or premium, if any, or interest on the Revenue Bonds. The registrar shall pay all principal of and premium, if any, and interest on the Revenue Bonds only to or upon the order of the securities depository, and all such payments shall be valid and effective to fully satisfy and discharge the State's obligations with respect to the principal and interest of the Revenue Bonds to the extent of the sum or sums so paid. So long as the Book-Entry Only System is in effect, no person other than the securities depository shall receive an authenticated Revenue Bond.

DTC may determine to discontinue providing its service with respect to the Revenue Bonds at any time by giving notice to the State and discharging its responsibilities with respect thereto under applicable law. Upon receipt by the State and the registrar of written notice from DTC or a successor to the effect that it is unable or unwilling to discharge its responsibilities under the Book-Entry Only System, the registrar shall issue, transfer and exchange Revenue Bonds of the initial series as requested by the securities depository in appropriate amounts, and whenever the securities depository requests the State and the registrar to do so, the State and the registrar shall cooperate with DTC or a successor in taking appropriate action after reasonable notice (i) to arrange for a substitute depository willing and able, upon reasonable and customary terms, to maintain custody of the Revenue Bonds, or (ii) to make available Revenue Bonds registered in whatever name or names the DTC Participant registering ownership, transferring or exchanging such Revenue Bonds shall designate.

In the event the State determines that it is in the best interests of the Beneficial Owners that they be able to obtain printed Revenue Bonds, the State may so notify the securities depository and the registrar, whereupon the securities depository shall notify the DTC Participants of the availability through the securities depository of such printed Revenue Bonds. In such event, the State shall cause to be prepared and the registrar shall issue, transfer and exchange the printed Revenue Bonds fully executed and authenticated, as requested by the securities depository in appropriate amounts and, whenever the securities depository requests, the State and the registrar shall cooperate with the securities depository in taking appropriate action after reasonable notice to make available printed Revenue Bonds registered on the bond register maintained by the registrar in whatever name or names the DTC Participants for which the Revenue Bonds are held shall designate.

Notwithstanding the foregoing, so long as any Revenue Bond is registered in the name of a securities depository or its nominee, all payments of principal and interest on the Revenue Bonds and all notices with respect to the Revenue Bonds shall be made and given, respectively, to the securities depository as provided in the representation letter given to it by the State and the Registrar.

The above information contained in "Book-Entry System is based solely on information provided by DTC. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The State cannot and does not give any assurances that DTC or DTC Participants will distribute to the Beneficial Owners of the Revenue Bonds (i) payments of principal of or interest and premium, if any, on the Revenue Bonds, (ii) certifies representing an ownership interest or other confirmation of beneficial ownership interest in Revenue Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the

Registered Owner of the Revenue Bonds, or that they will do so on a timely basis, or that DTC, or the DTC Participants will serve and act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities Exchange Commission, and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The State will have no responsibility or obligation to any DTC Participant, or any Beneficial Owner or any other person with respect to: (1) the Revenue Bonds; (2) the accuracy of any records maintained by DTC or any DTC Participant; (3) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Revenue Bonds; (4) the delivery by DTC or any DTC Participant of any notice to any Beneficial Owner which is required or permitted to be given to owners of Revenue Bonds; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Revenue Bonds; or (6) any consent given or other action taken by DTC as a Bondholder.

SOURCES AND USES

The proceeds of the sale of the Revenue Bonds (other than earnings on cash balances in the Pension Building Fund), together with other available funds of the Retirement Systems and the uses of such proceeds and other available funds are estimated below:

SOURCES

Par Amount of Revenue Bonds	\$29,000,000.00
Accrued Interest 6/1-6/20/2000	\$ 87,957.14
TOTAL	\$29,087,957.14
USES	
Deposit to Pension Building Fund	\$28,547,943.24
Total Underwriter's Discount (.481%)	\$ 139,387.51
Original Issue Discount (OID)	\$ 101,169.25
Costs of Issuance	\$ 211,500.00
Deposit to Debt Service Fund	\$ 87,957.14
TOTAL	\$29,087,957.14

SECURITY FOR THE REVENUE BONDS

General

The Revenue Bonds are special obligations of the State payable solely from and secured by certain Pledged Assets. The Pledged Assets are comprised of semiannual payments made by the Retirement Systems pursuant to the Joint Payment and Pledge Agreement for deposit in the Pension Building Debt Service Fund. In addition, each Retirement System has granted a security interest in its Available Assets, but only to the extent described below under the heading "Security for Debt Service Payments", to the Commissioner to secure their respective obligations to make their respective Debt Service Payments.

Ownership Interest

Pursuant to the Joint Payment and Pledge Agreement, on or before May 1 of each year, commencing May 1, 2001, the Commissioner is required to determine each Retirement System's pro rata share of debt service due on the Revenue Bonds, which is based on their respective Ownership Interest, on the December 1 and June 1 Interest Payment Date of the following Fiscal Year. Pursuant to the Co-Tenancy Agreement, the Retirement Systems have agreed that their respective Ownership Interests in the Facility are initially as follows: Minnesota State Retirement System, 20.4%; Public Employee Retirement Association, 39.7%; and Teachers Retirement Association, 39.90%. The percentage Ownership Interests may change from time to time as further described in the Joint Payment and Pledge Agreement and Co-Tenancy Agreement, in which case their respective shares of the Debt Service Payments would change accordingly.

The Retirement Systems are required to transfer to the Commissioner on or before May 15 and November 15 of each year, commencing November 15, 2000, their respective Debt Service Payments. Failure of any Retirement System to deposit its Debt Service Payment with the Commissioner when due on or before a Debt Service Payment Date constitutes a Debt Service Payment Default.

Security for Debt Service Payments

To secure the payment to the Commissioner of the Debt Service Payments, each Retirement System has pledged and granted to the Commissioner a security interest in its Available Assets to secure payment of each Retirement System's Debt Service Payment. The pledge and security interest constitutes a lien on the Available Assets but attaches to the Available Assets of a Retirement System, only upon the occurrence of a Debt Service Payment Default, and only in the amount of the Debt Service Payment in default. All Available Assets of the Retirement Systems with respect to which no lien has attached under the provisions of the Joint Payment and Pledge Agreement may be used by the Retirement Systems for any purpose authorized by law.

Set forth in the table below is a summary of the Total Assets as disclosed in the annual financial statements for each of the Retirement Systems, for each of the years June 30, 1995 through June 30, 1999. For the years 1997 through 1999 the assets are shown at a fair value. For the years 1995 through 1996 the assets are shown at cost. Effective for the fiscal year ended June 30, 1997, MSRS, PERA and TRA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement #25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. The provisions of this statement required the restatement of prior year balances for the effect of changing reporting investments at cost to reporting investments at fair value.

		Public		
	Minnesota	Employees	Teacher's	
	State Retirement	Retirement	Retirement	
	<u>System</u>	<u>Association</u>	<u>Association</u>	<u>Total</u>
Total Assets (at fair value)	9,068,826,000	14,608,070,000	16,692,428,535	40,369,324,535
Excluded Assets	(4,167,419,000)	(7,436,855,000)	(8,669,445,089)	(20,273,719,089)
Available Assets 6/30/1999	4,901,407,000	7,171,215,000	8,022,983,446	20,095,605,446
		_		
Total Assets (at fair value)	8,158,806,000	13,302,884,000	15,289,822,531	36,751,512,531
Excluded Assets	(3,684,385,000)	(6,794,446,000)	(7,417,670,992)	(17,896,501,992)
Available Assets 6/30/1998	4,474,421,000	6,508,438,000	7,872,151,539	18,855,010,539
Total Assets (at fair value)	7,925,610,000	11,138,837,000	12,921,310,349	31,985,757,349
Excluded Assets	(4,199,896,000)	(5,663,799,000)	(6,227,218,983)	(16,090,913,983)
Available Assets 6/30/1997	3,725,714,000	5,475,038,000	6,694,091,366	15,894,843,366
		_		
Total Assets (at cost)	5,988,341,000	8,041,589,000	9,407,071,770	23,437,001,770
Excluded Assets	(3,192,841,000)	(3,925,694,000)	(4,225,515,000)	(11,344,050,000)
Available Assets 6/30/1996	2,795,500,000	4,115,895,000	5,181,556,770	12,092,951,770
		·		
Total Assets (at cost)	5,199,218,000	7,102,365,000	8,248,987,865	20,550,570,865
Excluded Assets	(2,822,817,000)	(3,585,836,000)	(3,790,813,000)	(10,199,466,000)
Available Assets 6/30/1995	2,376,401,000	3,516,529,000	4,458,174,865	10,351,104,865

Flow of Funds

The Pension Fund Depository Accounts are accounts that are held in the State treasury. Payments received by the Retirement Systems from employee and employer contributions and investment earnings are deposited in the Pension Fund Depository Accounts. Funds held in the Pension Fund Depository Accounts are utilized to make authorized payments for Retirement System obligations. The Debt Service payments will be transferred from the Pension Fund Depository Accounts to the Pension Building Debt Service Fund. Funds held in the Pension Fund Depository Accounts that are not needed to make authorized payments are certified to the State Board of Investment (the "SBI") for longer term investment, are invested by the SBI, and are held outside the State treasury by a bank acting as a custodian. Should the Retirement Systems need additional funds in the Pension Fund Depository Accounts, they will certify the amount of funds with the SBI, who will sell securities and the funds are deposited in the Pension Fund Depository Accounts.

Each Retirement System has covenanted and agreed to maintain, as of May 1 and November 1 of each year, commencing November 1, 2000, a cash balance in an amount not less than their pro rata share of debt service due on the Revenue Bonds on the next Debt Service Payment Date (the "Cash Balance") in its respective Pension Fund Depository Account. Each of the Retirement Systems have further agreed not to certify any funds for investment to the SBI for investment outside the State treasury until it has transferred its respective Debt Service Payment to the Commissioner for deposit to the Pension Building Debt Service Fund.

The Commissioner of Finance is the State's chief financial officer. Among the duties of the Commissioner is to keep expenditure and revenue accounts according to generally accepted accounting principles. This provides the Commissioner with access to the state's accounting system and provides the Commissioner the ability to make accounting transactions as necessary and as required in the Joint Payment and Pledge Agreement.

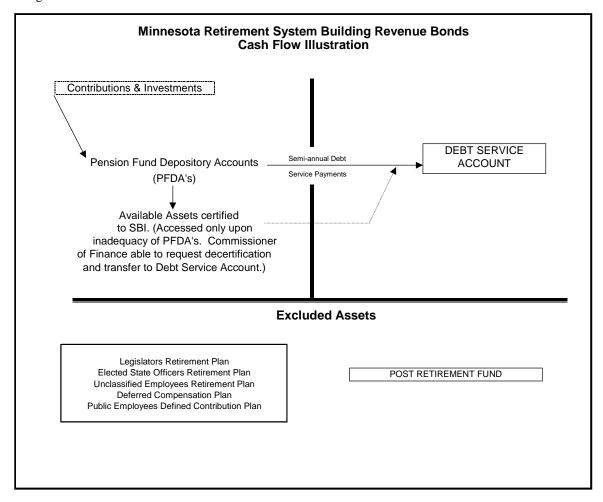
Upon the occurrence of a Debt Service Payment Default, the Commissioner is required by the Joint Payment and Pledge Agreement to first attach and seek payment from the defaulting Retirement System's respective Pension Fund Depository Account. The Commissioner has been granted authority by the Retirement Systems to transfer funds from the Pension Fund Depository Accounts to the Pension Building Debt Service Fund to satisfy the

Debt Service Payment Default.

If at any time those sums are not sufficient to cure the defaulting Retirement System's Debt Service Payment Default, the Commissioner has been delegated the authority to certify on behalf of the Retirement Systems, to the SBI that Assets are needed for immediate use and to direct the SBI to sell securities in an amount sufficient to cure the Debt Service Payment Default. The Commissioner is required by the Joint Payment and Pledge Agreement to identify the defaulting Retirement System to the SBI and request the remittance of the funds within five (5) days.

A summary of the provisions of the Joint Payment and Pledge Agreement is included in Appendix B attached to this Official Statement.

The following is a graph showing the flow of funds for the financing of the Minnesota Retirement System Building Revenue Bonds:



Additional Revenue Bonds

Under the Act, the Commissioner is authorized to issue Revenue Bonds in a principal amount not to exceed \$38 million, including the Retirement System Building Revenue Bonds, Series 2000 offered hereby. In the Joint Payment and Pledge Agreement each of the Retirement Systems covenants that it will not pledge its Available Assets or agree to obligate itself to pay debt service on additional bonds issued to construct, improve or expand the Facility. However, nothing prevents the Retirement Systems from pledging their Available Assets or obligating themselves to pay debt service on bonds issued for any other purpose as authorized by law on a parity or superior basis with the Revenue Bonds. See AAPPENDIX B: SUMMARY OF THE JOINT PAYMENT AND PLEDGE AGREEMENT - Certain Additional Covenants of the Retirement Systems.

Bonds Outstanding

The Retirement Systems currently have no other bonds outstanding and currently have no legal authority to sell bonds other than the Revenue Bonds

Defeasance

Upon certain terms and conditions specified in the Order, the Revenue Bonds or portions thereof will be deemed to be paid and the security provided in the Order and the Joint Payment and Pledge Agreement may be discharged prior to maturity or redemption of the Revenue Bonds upon the provision for the payment of such Revenue Bonds. In that case, the Revenue Bonds will be secured solely by the cash and securities deposited with the Registrar for such purpose. See "APPENDIX D: SUMMARY OF THE ORDER - Discharge of Lien."

In addition, in the Joint Payment and Pledge Agreement, each of the Retirement Systems covenants that if it becomes a Terminated System, unless the other Retirement Systems acquire 100% of the Terminated System's Ownership Interest, the Terminated System will deposit with the Commissioner an amount sufficient to pay the principal and interest and premium, if any, on the principal amount of the Revenue Bonds then outstanding in a principal amount equal to their Ownership Interest. Upon such deposit, the Terminated System's obligation to make Debt Service Payments pursuant to the Joint Payment and Pledge Agreement shall terminate. See "APPENDIX B: SUMMARY OF THE JOINT PAYMENT AND PLEDGE AGREEMENT - Certain Additional Covenants of the Retirement Systems."

RISK FACTORS

General

The Revenue Bonds and the interest thereon are payable solely from and secured by the Pledged Assets as defined and provided in the Joint Payment and Pledge Agreement and Order. The availability and sufficiency of these Pledged Assets is subject to factors over which the Commissioner, the State and, in some respects, the Retirement Systems, have no control. Reductions in the Available Assets to pay debt service on the Revenue Bonds may result in the Retirement System's inability to pay such debt service or to pay such debt service when due. Reductions in the Available Assets to pay debt service, even if not sufficient to result in the Retirement System's inability to pay debt service on the Revenue Bonds when due, could result in the reduction of the then existing credit ratings assigned to the Revenue Bonds by the Rating Agencies. A reduction in the credit ratings assigned to the Revenue Bonds would likely reduce their market value and might adversely affect their marketability. These and other risk factors affecting the Revenue Bonds are discussed below and should be reviewed by prospective purchasers and purchasers of the Revenue Bonds.

Economic Factors

Absent legislative change, the Retirement Systems will continue to exist and employer and employee contributions will continue as long as there are state, local governmental, and school district employees providing service to the citizens of Minnesota. A drastic curtailment in public employment, across the board lay-offs of public employees, or drastic curtailments to governmental services would affect the amount of employee and employer contributions made to the Retirement Systems. Such economic changes would have to be of a cataclysmic nature and scope in order to put the Debt Service Payments at risk. While the overall conditions of the investment markets could also affect the amount of Available Assets available for Debt Service Payments, the investment markets would similarly have to deteriorate to an extreme before a significant risk would arise.

Legislative, Congressional or Administrative Actions

The Retirement Systems were created by the Legislature and all aspects of their operations are subject to legislative directive, in particular, the amounts of pension benefits for future retirees, when and in what manner such benefits are payable, the percentage amounts of mandated employer and employee contributions, and each Retirement System's actuarially determined funding obligations are all subject to future legislative change. A change in any of these factors could affect the amount of Available Assets the Retirement Systems would have

available to make Debt Service Payments.

The Legislature could also decide to terminate future participation in one or more of the Retirement Systems, could decide to terminate one or more of the Retirement Systems, could merge one or more of the Retirement Systems, could increase or decrease future pension benefits payable to participants or, could change the Retirement Systems' current funding obligations. Any of these actions could influence the amount of Available Assets available to make Debt Service Payments. If one or more of the Retirement Systems are terminated by the legislature, issues could arise regarding the obligation of the Terminated System to make its Debt Service Payments and whether this obligation must be paid prior to the payment of all employee accrued benefits. Uncertainty could also arise regarding the other Retirement Systems' mutual obligations to assume Debt Service Payments on behalf of the Terminated System.

Future changes to Federal pension and tax law could affect the Retirement Systems' "governmental plan' status under 29 U.S.C. section 1002 (32) and 26 U.S.C. section 414 (2) or their status as "qualified plans" under 26 U.S.C. section 401, or their status and that of the State Board of Investment and the Commissioner of Finance as government instrumentalities under 26 U.S.C. section 115.

Nature of Security Interest in Pledged Assets

The security interest granted by each of the Retirement Systems in their Available Assets pursuant to the Joint Payment and Pledge Agreement attaches only at the time of a Debt Service Payment Default and only in the amount of the Debt Service Payment in default. Other than the execution of the Joint Payment and Pledge Agreement and the filing of a State Uniform Commercial Code Financing Statement, no other action will be taken to establish or perfect the security interest in the Available Assets. Perfection is the means by which third parties are formally put on notice that the holder of the security interest has rights in the collateral. Because of the nature of the Available Assets and the fact that the security interest does not attach until a Debt Service Payment Default occurs, the conditional grant of the security interest and the filing of a financing statement may not be sufficient to perfect the security interest ahead of properly perfected third parties. If the security interest in the Available Assets does not attach and/or is not perfected prior to a Debt Service Payment Default, other creditors of the Retirement Systems could have or obtain a prior lien on the Available Assets.

Limited Enforcement of Revenue Bonds and Order

The Revenue Bonds and the orders authorizing their issuance can only be enforced in accordance with the provisions of the Order limiting the Registered Owners' enforcement rights and requiring enforcement in the District Court for Ramsey County, Minnesota. The rights and remedies of the Registered Owners of the Revenue Bonds may be limited or rendered ineffective by judicial decisions or the application of principles of equity relating to or affecting the enforcement of creditor's rights or contractual obligations generally.

No Trustee

The Commissioner will not appoint a national or state bank or trust company to act as trustee on behalf of the Registered Owners of the Revenue Bonds, to hold and invest sums on deposit in the Pension Building Debt Service Account, to hold and invest monies transferred to the Debt Service Account until used to pay debt service on the Revenue Bonds, or to enforce any rights of the Registered Owners under the Joint Payment and Pledge Agreement, the Act or the Commissioner's Order authorizing and directing the issuance of the Revenue Bonds. Therefore, the Registered Owners of the Revenue Bonds will be placing substantial reliance upon the Commissioner in certain respects and in the event of a default in compliance by the Retirement Systems with the covenants set forth in the Joint Payment and Pledge Agreement, the Registered Owners of Revenue Bonds may have to take action themselves to enforce such covenants. For more information on the rights of Registered Owners of Revenue Bonds see the summary of the Joint Payment and Pledge Agreement attached hereto as Appendix B.

Limited Source of Payment

In the event the Pledged Assets are not sufficient to pay debt service on the Revenue Bonds when due, the Commissioner has no authority under State law to pay such debt service from any other source. The Commissioner is prohibited by the State Constitution from paying debt service on the Revenue Bonds from the proceeds of any State tax.

No Mortgage

The obligation of the Retirement Systems to make the Debt Service Payments required under the Joint Payment and Pledge Agreement is not secured by a mortgage on the Facility. Consequently, in the event of a Debt Service Payment Default the Bondholders have no right to require the sale of the Facility nor any interest in the sale proceeds. The State holds the Facility in trust for each of the Retirement Systems as tenants in common and any sale of the Facility requires legislative approval.

THE RETIREMENT SYSTEMS

The Retirement Systems described below are the three statewide systems covering most of the employees of the State, counties, cities, and townships, and school districts. The systems were established by the Legislature in 1929 through 1931 to collect the contributions of employees and employers and to pay benefits to retired public employees and their beneficiaries.

The original systems were set up as pension plans that did not include Social Security coverage. The State of Minnesota decided to coordinate the pension coverage of the public employees covered by these systems with the federal program over a period from 1955 through 1967. All persons first covered by the Minnesota State Retirement System (MSRS) since 1956, the Teachers Retirement Association (TRA) since 1960, and all local government employees covered by the Public Employees Retirement Association (PERA) since 1968 contribute to both their respective pension funds and to Social Security. The TRA and PERA still have some, but very few, contributing members from the original "basic" plan who are not covered by Social Security. Employees participating in the public safety funds administered by PERA and MSRS are also not covered by or contributing to Social Security on their public employment earnings.

MSRS

Minnesota State Retirement System ("MSRS") provides retirement coverage for 51,500 active employees, 21,500 retirees and 21,100 members who no longer contribute, but are eligible for future monthly benefits. These members participate in 10 unique retirement plans. The largest plans are the General Employees' Plan, Correctional Plan and State Patrol Plan, which represent 98 percent of MSRS's Total Assets.

The MSRS administration is governed by an 11 member board of directors. The board includes four elected General Plan members, one elected State Patrol Plan member, one elected Correctional Plan member, one elected retired member, one designated Metropolitan Council Transit Operations representative, and three members appointed by the governor. MSRS management is vested with the executive director who administers the plans in accordance with Minnesota law and board policies.

The State Employees' Retirement Fund includes the General Employees' Plan, a multiple employer, cost sharing plan, and the Military Affairs and Transportation Pilots' Plan, a single employer plan. Only certain employees of the Departments of Military Affairs and Transportation are eligible to be members of the Military Affairs and Transportation Pilots' Plan, but all state employees who are not members of another plan are covered by the General Employees Plan.

The State Patrol Retirement Fund includes only the State Patrol Retirement Plan, a single employer plan. Membership is limited to those state employees who are state troopers, conservation officers, crime-bureau officers or gambling-enforcement agents.

The Correctional Employees' Retirement Fund includes only the Correctional Plan, a single employer plan. Membership is limited to those state employees who have direct responsibility for inmates at Minnesota correctional facilities.

The Judges' Retirement Fund includes only the Judges' Retirement Plan, a single employer plan. Active membership is limited to Minnesota district, appellate, supreme court judges and municipal and county court judges.

The General Fund Plan includes the Legislators' Retirement Plan and the Elected State Officers' Plan. Each is a single employer plan. Members of the Minnesota House of Representatives and Senate are included in the Legislators' Retirement Plan; the Elected State Officers' Plan includes only the elected constitutional officers. Assets from the General Fund Plan, which represent only 3/10 of 1 percent of MSRS's Total Assets, are not being pledged for this bond issue.

Membership statistics for each of the plans, as of June 30, 1999, follows:

	State Employees <u>Plan</u>	State Patrol <u>Plan</u>	Correctional Employees <u>Plan</u>	Judges' <u>Plan</u>	General Fund <u>Plan</u>	<u>Totals</u>
Members						
Retirees	16,667	526	602	155	204	18,154
Beneficiaries	1,811	146	50	83	76	2,166
Terminated members						
Vested, not receiving benefits	10,663	23	337	11	111	11,145
Non Vested	8,220	10	135	1	4	8,370
Active members						
Vested	35,353	642	2,123	170	131	38,419
Non Vested	<u>11,815</u>	183	<u>759</u>	112	<u>49</u>	12,918
Totals	84,529	1,530	4,006	532	575	91,172

Annualized Payroll (June 30, 1999) \$1,757,716,000 \$47,034,000 \$112,202,000 \$27,080,000 \$6,571,000 \$1,950,603,000

PERA

Public Employees Retirement Association ("PERA") administers pension funds that serve approximately 190,000 county, school and local public employees, benefit recipients, their survivors and dependents. PERA serves more than 2,000 separate governmental entities. These participating employers include cities, counties, townships, and school districts located throughout the state. At June 30, 1999, PERA's membership included 149,285 current, active employees and 50,518 retirees and beneficiaries.

The PERA Board of Trustees is responsible for administering these funds in accordance with statutes passed by the Minnesota Legislature and has a fiduciary obligation to PERA's members, the governmental employers, the state, and its taxpayers. The PERA Board of Trustees is composed of 11 members. The State Auditor is a member by statute. Five trustees are appointed by the Governor. Serving four-year terms, these five trustees represent cities, counties, school boards, retired annuitants, and the general public, respectively.

The remaining five board members are elected by the PERA membership at large to serve four-year terms. Three represent the general active membership, one trustee represents Police and Fire Fund members, and one trustee represents annuitants and benefit recipients. All five membership representatives were elected in January 1999.

The board appoints an executive director to serve as chief administrative officer of PERA. With approval of the board, the director develops the annual administrative budget, determines staffing requirements, contracts for actuarial and other services, and directs the day-to-day operation of the association.

PERA administers four separate defined benefit pension funds. Each has specific membership, contribution, benefit, and pension provisions.

The Public Employees Retirement Fund encompasses two plans: the PERA Coordinated Plan and the PERA Basic Plan. The Coordinated Plan, created in 1968, provides retirement and other benefits in addition to those supplied by Social Security. The Basic Plan established in 1931, is not coordinated with the federal program and was closed to new members on December 31, 1967.

The Public Employees Police and Fire Fund, originally established in 1959 for police officers and firefighters not covered by a local relief association, now encompasses all Minnesota police officers and firefighters hired since 1980. As of July 1, 1999, this fund also includes the members of 44 previously local police and fire

relief associations that elected to have PERA administer their plan.

The Public Employees Local Government Correctional Service Retirement Plan was created in 1999 to cover local government correctional service employees who spend most of their time in direct contact with inmates. The majority of these employees were formerly part of the Coordinated Plan.

The Public Employees Defined Contribution Plan was established by the Minnesota Legislature in 1987 to provide a retirement plan for personnel employed by public ambulance services. The plan has been expanded to include physicians and locally-elected public officials, except for county sheriffs. Assets from this plan, which represent only 1/10 of 1 percent of PERA's Total Assets, are not being pledged for this Revenue Bond issue.

Membership statistics for each of the plans, as of June 30, 1999, follows:

	Public Employees		Local Govt.	
	Retirement	Police & Fire	Correctional	
	Fund	Fund	Officers Fund	Total
Retirees	39,378	4,086	0	43,464
Beneficiaries	5,881	1,173	0	7,054
Terminated Members:				
Vested, no benefits	14,931	368	0	15,299
Non Vested	17,620	195	0	17,815
Active Members:				
Vested	96,031	7,549	1,409	104,989
Non Vested	41,497	<u>1,928</u>	<u>871</u>	44,296
Totals	<u>217,618</u>	<u>15,299</u>	<u>2,280</u>	<u>232,917</u>
Annualized Payroll	\$3,419,000,000	\$403,619,000	\$41,753,000	\$3,864,372,000

TRA

Teachers' Retirement Association ("TRA") had 458 reporting employer units, 68,613 active members and a total of 29,749 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits, as of June 30, 1999.

Teachers employed in Minnesota's public elementary and secondary schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Minneapolis, Duluth and St. Paul and by the University of Minnesota system) are required to be TRA members. Teachers employed by the Minnesota State College and Universities may elect TRA coverage.

TRA is managed by eight trustees: three are statutorily appointed and five are elected. The appointed trustees are the Commissioner of Children, Families and Learning, the Commissioner of Finance and a representative of the Minnesota School Boards Association. Four of the five elected trustees are active members and one is a retiree. Administrative management of the fund is vested in an Executive Director who is appointed by the Board of Trustees.

Membership statistics for the plan, as of June 30, 1999, follows:

	<u>TRA</u>
Retirees	27,457
Disabilitants	1,816
Beneficiaries	476
Terminated Members:	
Vested, no benefits	7,020
Non-Vested	18,317
Active Members:	
Vested	51,839
Non-Vested	<u>16,774</u>
Total	123,699
Annualized Payroll, June 30, 1999	\$2,625,254,000

INVESTMENTS

Assets of the Retirement Systems are invested by the State Board of Investment (the "SBI"). The SBI includes: governor, attorney general, secretary of state, state auditor and state treasurer. Members of the SBI are subject to the Prudent Person rule, fiduciary standards detailed in *Minnesota Statutes* Chapter 356A, and investment guidelines in *Minnesota Statutes*, Chapter 11A.

A 17-member Investment Advisory Council advises the SBI on investment policy. The Executive Director of each Retirement System serves as a member. Also, investment consultants are hired to monitor and evaluate investment performance of the various investment firms hired by the SBI.

Assets of all three of the Retirement Systems are pooled for investment purposes. The SBI divides assets into two funds: the Basic Retirement Fund and the Post-Retirement Fund. The Basic Retirement Fund holds the assets to fund future benefits payable to active employees and those who have terminated from state service, but have not begun to receive monthly benefits. The Post-Retirement Fund includes assets sufficient to fund the benefits of retired members that have begun to receive monthly benefits. Assets of the Post-Retirement Fund together with certain assets of the Basic Retirement Fund are Excluded Assets. See Appendix A for a definition of Excluded Assets.

The rate of return in the Basic Retirement Fund was 11.3 percent in the Fiscal Year ending June 30, 1999. The goal of the Basic Retirement Fund is to finance future retirement benefits. The actuarial assumed rate of return of 8.5 percent is set by law in Minnesota Statutes, Chapter 356. Over a five-year period, this fund is expected to outperform the median funds of public and private investors who have a similar asset allocation, and to generate a greater investment return than a composite of market indices that match the assets allocation. Over a 10-year period, the Basic Retirement Fund is expected to provide a rate of return that exceeds the rate of inflation by 3 percent to 5 percent. The asset allocation target is as follows:

- 1. Domestic Stocks 45%;
- 2. Bonds 24 %;
- 3. Foreign Stock 15%;
- 4. Alternate Assets 15 %; and
- 5. Cash 1%.

The Basic Retirement Fund is expected to exceed the return of a composite of market indices over a five-year period. Performance relative to this standard will measure two effects:

■ The ability of the managers selected by the SBI, in aggregate, to add value to the returns available from

the broad capital markets.

■ The impact of the SBI's rebalancing activity. The SBI rebalances the total fund when market movements take the stock or bond segments above or below its long-term asset allocation targets. This policy imposes a low risk discipline of "buy low-sell high" between asset classes on a total fund basis.

For the five-year period ending June 30, 1999, the Basic Retirement Funds out-performed the composite index by 0.2 percentage point annualized. The primary contributors to the value added came from above index performance by the international stock and bond portions of the portfolio, while the domestic stock segment underperformed index performance during the period. Actual returns relative to the total fund composite index over the last five years are shown below.

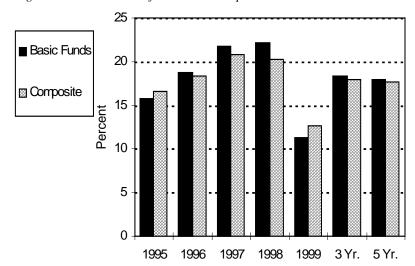


Figure 10. Basic Funds' Performance vs. Composite Index FY 1995-1999

						Annualized	
	<u>1995</u>	<u> 1996</u>	<u> 1997</u>	<u>1998</u>	<u> 1999</u>	<u>3 Yr.</u>	<u>5 Yr.</u>
Basic Retirement	15.8%	18.8%	21.8%	22.2%	11.3%	18.3%	17.9%
Funds							
Composite Index	16.6	18.3	20.8	20.3	12.7	17.9	17.7

PENSION FUND DEPOSITORY ACCOUNTS CASH FLOW

The Retirement Systems' revenues deposited into the Pension Fund Depository Accounts come from the collection of mandatory employer and employee contributions and investment income. From these amounts, the Retirement Systems pay their ongoing administrative and operating expenses. Amounts not needed short-term are certified to the Basic Retirement Fund and invested by the SBI. The purpose of the Basic Retirement Fund is to provide funding for the benefits of active employees and those who have terminated from state employment. When an active member retires, funds sufficient to pay monthly benefits for his or her lifetime are transferred from the Basic Retirement Fund to the Post-Retirement Fund. The Retirement Systems' combined trust monthly cash flow from contributions was in excess of \$60 million in Fiscal Year 1999 and their combined Basic Retirement Fund Available Assets are in excess of \$20 billion dollars, as compared to the annual debt service on the Revenue Bonds estimated at \$2.1 million. Post-Retirement Fund assets and certain assets of the Basic Retirement Fund are not pledged to secure Debt Service Payments on the Revenue Bonds (See Appendix A for a definition of Excluded Assets). Debt Service Payments constitute valid administrative and operating expenses of the Retirement Systems, made "for the exclusive benefit" of the Retirement Systems' participants, and periodic amounts necessary to pay Debt Service Payments will be deposited from the Retirement Systems' cash flows, prior to deposit being made to the Basic Retirement Fund. The Retirement Systems do not anticipate the need to go beyond monthly cash flows to assure payments.

Set forth in the table below is a summary of the Retirement Systems monthly receipts for the period from July 1995 through and including March 2000.

DEDA

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	<u>MSRS</u>	<u>PERA</u>	<u>TRA</u>
Jul-95	11,024,366	23,645,008	45,614,539
Aug-95	11,425,388	25,199,579	9,400,511
Sep-95	11,034,213	23,669,392	13,362,818
Oct-95	11,909,206	29,347,757	29,003,891
Nov-95	7,069,982	28,651,335	27,515,724
Dec-95	17,898,302	25,569,674	27,642,146
Jan-96	16,399,929	30,301,561	28,782,067
Feb-96	16,939,326	33,057,046	29,606,679
Mar-96	7,749,419	29,718,211	29,113,554
Apr-96	16,834,655	28,923,456	30,120,504
May-96	12,280,679	29,875,955	27,017,109
Jun-96	12,172,086	27,839,328	36,762,290
Annual Receipts	152,737,550	335,798,301	333,941,830
Jul-96	12,242,764	25,589,344	45,851,416
Aug-96	17,297,152	27,698,058	11,069,722
Sep-96	12,468,216	25,290,737	14,225,755
Oct-96	12,368,030	32,028,238	30,365,171
Nov-96	11,900,477	26,018,284	26,363,732
Dec-96	12,446,728	32,733,793	35,324,430
Jan-97	12,494,481	29,849,707	28,035,720
Feb-97	17,661,354	26,318,448	28,701,459
Mar-97	11,588,816	26,254,305	32,761,809
Apr-97	11,733,543	34,325,824	27,578,051
May-97	12,842,785	28,344,954	28,768,151
Jun-97	17,026,039	33,789,308	40,947,102
Annual Receipts	162,070,384	348,241,001	349,992,517

	MSRS	<u>PERA</u>	TRA
Jul-97	11,627,826	28,957,490	43,644,700
Aug-97	16,180,953	33,746,589	10,048,002
Sep-97	12,627,018	27,917,377	14,189,144
Oct-97	16,987,764	32,566,275	22,562,206
Nov-97	32,317,323	25,949,762	23,485,179
Dec-97	12,441,219	24,842,434	29,108,855
Jan-98	18,247,804	31,550,581	23,128,322
Feb-98	11,938,686	37,468,458	24,756,350
Mar-98	13,050,397	31,710,508	26,030,279
Apr-98	11,176,197	31,001,920	23,136,388
May-98	15,058,468	36,307,572	21,128,817
Jun-98	11,633,270	39,669,259	31,369,626
Annual Receipts	183,286,924	381,688,223	292,587,868
Jul-98	28,055,751	38,929,342	28,932,964
Aug-98	22,310,786	32,769,650	9,317,441
Sep-98	13,934,172	35,766,653	13,925,944
Oct-98	12,569,646	35,620,860	22,067,012
Nov-98	12,156,069	28,660,542	19,207,230
Dec-98	18,003,177	21,273,528	30,418,142
Jan-99	12,636,845	35,890,201	19,593,015
Feb-99	19,789,074	37,285,202	21,001,153
Mar-99	14,121,056	41,706,124	24,565,116
Apr-99	12,552,484	39,444,417	20,726,239
May-99	12,779,481	38,509,137	22,807,761
Jun-99	13,452,089	39,800,346	32,174,053
Annual Receipts	192,360,629	425,656,000	264,736,069
1.1.00	0.040.700	07.007.000	00 040 074
Jul-99	9,016,730	37,607,920	28,919,874
Aug-99	23,018,559	35,033,809	10,136,250
Sep-99	18,204,591	32,418,736	14,129,373
Oct-99	14,567,614	34,106,118	22,443,216
Nov-99	16,020,716	37,369,469	23,252,250
Dec-99	25,245,399	29,364,984	25,752,157
Jan-00	13,636,578	40,382,698	22,367,794
Feb-00	14,248,153	38,743,834	23,299,887
Mar-00	13,589,058	41,465,597	25,390,942
Apr-00	13,478,488	32,840,509	21,646,208
Annual Receipts	147,547,397	326,493,166	195,691,743

The following is the estimated coverage of the annual debt service payment by the minimum Fiscal Year 2000 monthly receipts deposited to the Pension Fund Depository Accounts.

Minimum Amount of FY2000 Monthly Receipts	MSRS 9,016,730	PERA 29,364,984	TRA 10,136,250	<u>Total</u> 64,752,699
Estimated Annual Debt Service Payment	424,900	826,900	831,000	2,082,800
Coverage	21.2	35.5	12.2	31.1

Invested Treasurer's Cash

The Pension Depository Account, the Pension Building Fund, and the Pension Building Debt Service Fund will be invested by the Minnesota SBI in Invested Treasurer's Cash (the "ITC"). The ITC is a pooled fund consisting of all cash on hand in the State treasury, not otherwise invested. The SBI invests this account in short-term, liquid, high quality debt securities on a non-leveraged basis. These investments include U.S. Treasury and agency issues, repurchase agreements, and commercial paper. During Fiscal Year 2000, the ITC has had an average daily balance of \$5.4 billion. Investment earnings of the pools are allocated by the Department of Finance to the individual funds where provided by statute. Earnings for all other participants are credited to the State's general fund. The Pension Depository Account, the Pension Building Fund, and the Pension Building Debt Service Fund will receive ITC allocation for investment earnings

The historic average rate of return on the ITC is as follows:

						YTD
Fiscal Year	1995	1996	1997	1998	1999	2000
ITC Average	5.34%	5.55%	5.56%	5.75	5.40%	5.57%

RETIREMENT SYSTEMS FUNDING

State law requires the Retirement Systems to "pre-fund" future benefit obligations. Rather than collecting only sufficient sums from current active workers to pay current retired members and beneficiaries, the Retirement Systems are required by statute to accumulate enough assets to cover all benefit liabilities of participating members by the year 2020. In order to do this, contribution rates for the Retirement Systems are determined based upon current assets, future expected investment returns, current and projected liabilities based on the benefit provisions, demographics of the Retirement Systems' membership, statutory actuarial assumptions and what annual contributions will be needed to have enough assets to match current and projected liabilities by the year 2020.

The Legislature sets the contribution rates needed to fund the Retirement Systems by using the reports and advice of its actuarial consultants. Each year a report is completed to see if a Retirement System's contribution rates are meeting the funding requirements. If the contributions are not changed to match the funding requirements determined by the actuarial consultants, deficiencies are created and those deficiencies may become worse over time.

Every four years, the assumptions used to forecast funding requirements are tested against actual experience. The factors considered include but are not limited to, the number of members who are retiring, how many leave employment prior to retirement and forfeit future benefits by taking a lump-sum refund of employee contributions, how many new members will be added to the Retirement System, what the expected average annual return on investments is, how long active and retired members and beneficiaries are living, and how much salaries are being increased.

The actuarial firm of Milliman & Robertson, Inc., retained by the Legislative Commission on Pensions and Retirement, determines the actuarial liabilities and reserves of the Retirement Systems using the entry age normal cost method. Other major actuarial assumptions are reviewed every four years and any modifications are approved by the Legislature.

MSRS

While MSRS administers seven defined benefit pension plans, the three largest plans, the General Employees Retirement Plan, the correctional Employees Plan, and the State Patrol Plan, represent 99 percent of the liabilities for which MSRS is responsible. All three plans exceed 100 percent funding as of the most recent valuation completed July 1, 1999. Refer to Appendix C, Section 1 for further discussion on actuarial valuation of the MSRS as of June 30, 1999.

The MSRS General Employees Retirement Plan is 109 percent funded, with actuarial assets of \$5.968

billion, which exceeds liabilities of \$5.464 billion. This plan has exceeded 100 percent since Fiscal Year 1997.

The MSRS Correctional Employees Retirement Plan is 109 percent funded, with actuarial assets of \$335 million, which exceeds liabilities of \$307 million.

The State Patrol Plan is 116 percent funded, with actuarial assets of \$472 million, which exceeds liabilities of \$406 million.

MSRS also administers the Judges Plan, which is ahead of schedule to reach full funding by the year 2020. The Legislators and Elective State Officers Plans were closed to new members as of July 1, 1997. Both of the plans are very small and are funded annually by appropriations from the Legislature.

PERA

The Public Employees Retirement Association (PERA) currently administers three cost-sharing defined benefit pension plans and one defined contribution plan. The largest of the defined benefit plans' assets are held in trust as the Public Employees Retirement Fund. The Police and Fire Fund administered by the PERA holds assets in trust to pay the benefits of licensed peace officers and firefighters throughout the State of Minnesota, including those persons who were formerly members of 44 local paid police and fire relief associations that elected to merge under the PERA's administrative umbrella. The assets of these two funds represent over 99 percent of PERA's Total Assets. The newest and smallest defined benefit plan is the Local Government Correctional Service Retirement Plan. A description of the funding of the pension plans administered by the PERA follows.

As of the most recent valuation on July 1, 1999, the Public Employees Retirement Fund had net assets of \$8.5 billion. The total reserves necessary to fund the liabilities owed to current and future retirees of the Public Employees Retirement Fund were approximately \$9.4 billion. The comparison of net assets to required reserves shows that the funding ratio for the Fiscal Year 1999 was 89.89 percent. Refer to Appendix C, Section 2 for further discussion on the actuarial valuation of the Public Employees Retirement Fund as of June 30, 1999.

Prior to July 1, 1999, the PERA also administered two separate funds for police and fire personnel. The Public Employees Police and Fire Consolidation Fund was made up of 44 police or fire relief association plans that were originally administered by individual cities and an independent board of trustees for each plan. In 1987, the Legislature enacted a provision to allow each of these local relief association plans and their cities to elect to have PERA take over the administration of their plan, to be maintained under the PERA as a separate fund made up of the individual plans. Effective June 30, 1999, the individual plans making up the Public Employees Police and Fire Consolidation Fund were merged with the Public Employees Police and Fire Fund.

Following the merger, as of July 1, 1999, the Public Employees Police and Fire Fund had net assets of \$3.7 billion. The total reserves necessary to fund the liabilities owed to current and future retirees of the Public Employees Police and Fire Fund were approximately \$3 billion. Net assets compared to current and future required reserves resulted in a funding ratio of 122 percent as July 1, 1999. Refer to Appendix C, Section 2 for further discussion on the actuarial valuation of the PERA Police and Fire Fund and the PERA Police and Fire Consolidation Fund as of June 30, 1999.

The PERA Local Government Correctional Service Retirement Plan (Correctional Plan) was established by the Minnesota Legislature on July 1, 1999. Participants of that plan are newly hired local government correctional service personnel employed by county correctional facilities and include about 2,200 persons who previously participated in the Public Employees Retirement Fund. The projected current and future assets of the Correctional Plan as of July 1, 1999 were valued at approximately \$84 million. The projected current and expected future liabilities were estimated to be \$86.5 million as of July 1, 1999 resulting in a projected asset to future required reserves funding ratio of 96.95 percent.

An experience study completed in 1997 for the Public Employees Retirement Fund showed that several of the assumptions used to determine the benefit costs were not reflecting the actual experience of the fund. Assumptions relating to the number of members leaving public employment and taking refunds over-estimated the actual number of such cases. A closer view of the actual experience showed that more members, particularly those

with three years of service (PERA has 3 year vesting) were not taking refunds. In addition, members were living longer than anticipated. The actuarial assumptions needed to address these factors will take effect on July 1, 2000.

Under the new actuarial assumptions, the current contributions to the Public Employees Retirement Fund will fall below what is needed to meet the State's requirement of full funding by 2020. With the change in assumptions, contributions need to be 2.2 percent of pay greater than currently required to meet that target. This increase reflects the fact that the value of the benefits the active participants are earning each year is not being covered by contributions currently collected. Between now and the 2001 legislative session, various ways to help fund the needed increase in contributions will be studied by the legislative pension commission and representatives from PERA and local government employers. It is anticipated that legislation will then be introduced to propose how the necessary contribution increase should be implemented.

TRA

As of the most recent valuation on July 1, 1999, the TRA Fund had Net Assets of \$14.0 billion. The total reserves necessary to fund the liabilities owed to current and future retirees of the TRA Fund were approximately \$13.3 billion. The comparison of net assets to required reserves shows that the funding ratio for Fiscal Year 1999 was 105.67 percent. This represents the third consecutive year in which TRA is considered fully funded from an actuarial perspective.

Accordingly, TRA has eliminated its unfunded actuarial accrued liability. As recently as 1994, the TRA unfunded liability stood at approximately \$1.5 billion. Significant actuarial gains resulting from a favorable investment market and lower than expected increases in members' salaries over this period accounted for the amortization and elimination of the unfunded liability. Refer to Appendix C, Section 3 for further discussion on actuarial valuation of the TRA as of June 30, 1999.

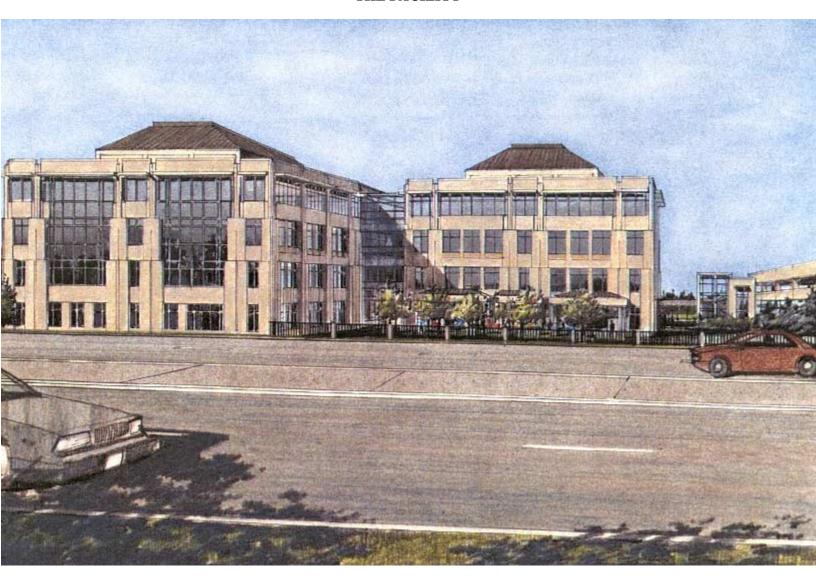
All vested TRA members are eligible for a defined benefit amount based on their age, years of service and their highest five years of average salary. Some TRA members first hired prior to July 1, 1969, are also eligible for the Improved Money Purchase (IMP) savings clause of Minnesota Statutes, section 354.55, subdivision 17. Eligibility is limited to those teachers who did not formally elect a specific retirement provision by June 30, 1972. Under the savings clause, eligible members obtain the higher of two benefit provisions: 1) The High-5 Average Salary formula, or 2) an IMP annuity based on their accumulated employee contributions plus compounded interest and an employer match of 120 percent.

Beginning with Fiscal Year 1999, TRA determined that a significant numbers of retiring members would have a higher IMP benefit than the High-5 Average Formula benefit because of a strong annual investment returns.

Approximately 1,400 members retired during Fiscal Year 1999 whose benefit was higher under the IMP provision. As of June 30, 1999, TRA estimates that approximately 1,900 IMP-eligible members are still actively teaching.

Actuarially, projected benefits for all TRA members are budgeted at their estimated High-5 Average Formula amount at retirement, not their estimated IMP benefit amount. The actuarial loss of over \$207 million during Fiscal Year 1999 is largely due to unexpected, higher initial benefits paid to retiring IMP-eligible members. (See TRA's Financial Statement for Fiscal Year 1999 in Appendix C, Section 3, page 52, line D2 in comparison to line D5.) Because IMP eligibility is limited to a closed group of members, TRA management believes that the actuarial impact of remaining IMP-eligible members will not adversely harm the overall financial integrity of the fund.

THE FACILITY



The Facility will house the administrative offices of the Retirement Systems with sufficient space to accommodate expected growth in the number of employees through the year 2010 and provide expansion space to allow growth of the Retirement Systems from the year 2010 through the year 2040. The Facility will support growth beyond the year 2010 by providing additional space that would be initially occupied by Minnesota State government agencies. The Facility will be a four story structure having at least 148,190 gross square footage at a cost of \$24,046,000. The parking ramp at approximately 117,360 square feet, is designed to accommodate up to 430 cars and is estimated to cost \$3,909,000. The total project cost is estimated to be \$29,000,000 which includes cost of issuance for the Revenue Bonds. Ownership of the Facility will be in the name of the State of Minnesota, held in trust for each of the Retirement Systems as tenants in common. The Retirement Systems have entered into a Co-Tenancy Agreement which sets forth the duties of each of the Retirement Systems with respect to the construction, operation and maintenance costs of the Facility. In the Co-Tenancy Agreement, the Retirement Systems have agreed that the initial percentage use of the Facility is as follows: MSRS: 20.4%; PERA: 39.7%; and TRA: 39.9%. These percentages represent each Retirement System's Ownership Interest in the Facility and are used to determine the amount of their respective Debt Service Payments. The percentage Ownership Interests may change from time to time as further described in the Joint Payment and Pledge Agreement and Co-Tenancy Agreement, in which case their respective shares of the Debt Service Payments would change accordingly.

Land for the Facility was purchased in the City of Saint Paul, just north of the capitol area. The contract for the Facility was awarded to the construction firm of Ryan Companies US, Inc. ("Ryan"). The construction of the Facility is being accomplished with a design/build provision. One contract was awarded for the design/build project. Ryan is responsible for the performance of the architectural firm of Hammel, Green and Abrahamson, Inc. ("HGA") which will complete the design phase of the Facility. The design/build process has been implemented to save 12 to 18 months over the traditional design/bid/build process.

All three Retirement Systems presently lease space in various locations. The Facility will help the Retirement Systems improve efficiencies through collocation and will be more cost effective than leasing space. The construction of the Facility began on May 9, 2000. The Retirement Systems expect to occupy the Facility by September 2001.

Completion

In the Joint Payment and Pledge Agreement the Retirement Systems represent that the proceeds of the Revenue Bonds will be sufficient to pay the costs of issuance of the Revenue Bonds and the acquisition and construction of the Facility. The Retirement Systems agree they will not modify or add to the size or nature of the Facility if it would cause the total costs of acquisition and construction of the Facility to exceed the available proceeds of the Revenue Bonds unless the Retirement Systems pay such additional costs directly or deposit into a separate account of the Pension Building Fund other available cash or cash equivalents sufficient to pay such additional costs. See APPENDIX B: SUMMARY OF THE JOINT PAYMENT AND PLEDGE AGREEMENT - Completion, Ownership and Insurance.

FINANCIAL STATEMENTS

The financial statements of the Retirement Systems for the Fiscal Year ended June 30, 1999, which are included in Appendix C attached to this Official Statement, have been audited by the State Legislative Auditor.

TAX MATTERS

Tax Exemption

At closing Briggs and Morgan, Professional Association, Bond Counsel, will render an opinion that, at the time of their issuance and delivery to the original purchaser, under present federal and State of Minnesota laws, regulations, ruling and decisions (which excludes any pending legislation which may have a retroactive effect), the interest on the Revenue Bonds is excluded from gross income for purposes of United States income tax and is excluded, to the same extent, in computing both gross income and taxable net income for purposes of State of Minnesota income tax (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and that interest on the Revenue Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations or the Minnesota alternative minimum tax applicable to individuals, estates or trusts; provided that interest on the Revenue Bonds is subject to federal income taxation to the extent it is included as part of adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. No opinion will be expressed by Bond Counsel regarding other federal or state tax consequences caused by the receipt or accrual of interest on the Revenue Bonds or arising with respect to ownership of the Revenue Bonds. Preservation of the exclusion of interest on the Revenue Bonds from federal gross income and state gross and taxable net income, however, depends upon compliance by the Retirement Systems with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Revenue Bonds in order that interest thereon be (or continue to be) excluded from federal gross income and state gross and taxable net income.

The Retirement Systems will covenant to comply with requirements necessary under the Code to establish and maintain the Revenue Bonds as tax-exempt under Section 103 thereof, including without limitation, requirements relating to temporary periods for investments and limitations on amounts invested at a yield greater than the yield on the Revenue Bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), contains a number of requirements and restrictions which apply to the Revenue Bonds, including investment restrictions, which require periodic payments of arbitrage profits to the United States, and which apply to the timely and proper use of Revenue Bond proceeds and the activities financed therewith and certain other matters. The Order and other documents executed in connection with the issuance of the Revenue Bonds include provisions which, if complied with by the State, meet the requirements of the Code. Failure to comply with certain of such provisions may cause interest on the Revenue Bonds to become subject to federal and State of Minnesota income taxation retroactive to the date of issuance of the Revenue Bonds. No provision is made for redemption of the Revenue Bonds or for an increase in the interest rate on the Revenue Bonds in the event that interest on the Revenue Bonds becomes subject to federal or Minnesota income taxation.

The form of legal opinion to be issued by Briggs and Morgan, Professional Association with respect to the Revenue Bonds is set forth in Appendix G.

The exemption for federal or State tax purposes of interest to be paid on the Revenue Bonds from income taxation is not mandated or guaranteed by the United States or State Constitutions. Accordingly, federal and State laws providing for tax-exemption of the interest are subject to change. In the event federal or State law is changed to provide the interest on the Revenue Bonds is subject to federal or State income taxation, or if federal or State income tax rates are reduced, the market value of the Revenue Bonds may be adversely affected.

OTHER FEDERAL TAX CONSIDERATIONS

Property and Casualty Insurance Companies

Property and casualty insurance companies are required to reduce the amount of tax-exempt interest received or accrued during the taxable year on certain obligations acquired after August 7, 1986, including interest on the Revenue Bonds.

Foreign Insurance Companies

Foreign companies carrying on an insurance business in the United States are subject to a tax on income which is effectively connected with their conduct of any trade or business in the United States, including "net investment income." Net investment income includes tax-exempt interest such as interest on the Revenue Bonds.

Branch Profits Tax

A foreign corporation is subject to a branch profits tax equal to 30% of the "dividend equivalent amount" for the taxable year. The "dividend equivalent amount" is the foreign corporation's "effectively connected earnings and profits" adjusted for increase or decrease in "U.S. net equity." A branch's earnings and profits may include taxexempt municipal bond interest, such as interest on the Revenue Bonds.

Passive Investment Income of S Corporations

Passive investment income, including interest on the Certificates, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than 25% of the gross receipts of such S corporation is passive investment income.

Financial Institutions

For federal income tax purposes, financial institutions are unable to deduct any portion of the interest expense allocable to the ownership of certain tax-exempt obligations acquired after August 7, 1986, including the Revenue Bonds.

Original Issue Discount

Revenue Bonds having a stated maturity in the years 2012 through 2027 (the "Discount Bonds") are being sold at a discount from the principal amount payable on such bonds at maturity. The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under Section 1288 of the Code is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates and trusts for Minnesota income tax purposes to the same extent that stated interest on such Discount Bond would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under Section 1288 is added to the tax basis of the owner in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity).

Interest in the form of original issue discount accrues under Section 1288 pursuant to a constant yield method that reflects semiannual compounding on days that are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the produce of (a) one-half of the yield on such Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Bonds, over (2) the amount of stated interest payable. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is to be apportioned in equal amounts among the days in such accrual period.

If a Discount Bond is purchased for cost that exceeds the sum of (1) the Issue Price plus (2) accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Bond.

Except for the Minnesota rules described above, no opinion is expressed as to state and local income tax treatment of original issue discount. It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual, and may be deemed to accrue differently than under federal law. Holders of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning such Discount Bonds.

General

The preceding is not a comprehensive list of all federal tax consequences which may arise from the receipt or accrual of interest on the Revenue Bonds. The receipt or accrual of interest on the Revenue Bonds may otherwise affect the federal income tax (or Minnesota income tax or franchise tax) liability of the recipient based on the particular taxes to which the recipient is subject and the particular tax status of other items of income or deductions. All prospective purchasers of the Revenue Bonds are advised to consult their own tax advisors as to the tax consequences of, or tax considerations for, purchasing or holding the Revenue Bonds.

ENFORCEABILITY OF OBLIGATIONS

While the Revenue Bonds are to be payable from the payments to be made by the Retirement Systems pursuant unto the Joint Payment and Pledge Agreement, the practical realization of such security upon any default will depend upon the exercise of various remedies specified by the Joint Payment and Pledge Agreement. These and other remedies are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under constitutional, statutory and judicial law, the remedies specified in the Joint Payment and Pledge Agreement may not be readily available or may be limited. A court may decide not to order the specific performance of covenants contained in such documents. The various legal opinions to be delivered concurrently with the delivery of the Revenue Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights.

LEGAL OPINIONS

Legal matters incident to the authorization, issuance, validity and sale of the Revenue Bonds and the tax exempt status will be passed upon by Briggs and Morgan, Professional Association, Bond Counsel. The State Attorney General will offer an opinion as to the enforceability and validity of the Joint Payment and Pledge Agreement. The form of legal opinion to be issued by Briggs and Morgan, Professional Association with respect to the Revenue Bonds is set forth in Appendix G.

LITIGATION

There is not now pending any litigation against the State or any of the Retirement Systems seeking to restrain or enjoin the sale, issuance, execution or delivery of the Revenue Bonds, or in any manner questioning or affecting the validity of the Revenue Bonds or the proceedings or authority pursuant to which they are to be issued and sold.

There is not now pending any litigation challenging the validity, enforceability of, or seeking to restrain or enjoin the Retirement Systems from entering into the Joint Payment and Pledge Agreement nor any legislation that would have a Material adverse effect on the Assets of the Retirement Systems.

CONTINUING DISCLOSURE

The Commissioner of Finance, in the Order authorizing and ordering the issuance of the Revenue Bonds and, together with the Retirement Systems, in the Undertaking, has covenanted and agreed on behalf of the State, for the benefit of the holders of the Revenue Bonds from time to time, to comply with the provisions of Securities and Exchange Commission Regulation, 17 C.F.R. Section 240.15c2-12, paragraph (b)(5); and, for this purpose, to provide to nationally recognized securities repositories and any Minnesota state information depository, annual financial information of the type included in this Official Statement and notice of the occurrence of events which materially affect the terms, payment, security, rating or tax status of the Revenue Bonds. The State and the Retirement Systems are the only "obligated persons" in respect of the Revenue Bonds within the meaning of paragraph (b)(5). The State has never failed to comply in all material respects with any previous undertakings under SEC Rule 15c2-12 (the "Rule") to provide annual reports or notices of material events. A failure by the State to comply with the Undertaking will not constitute an event of default on the Bonds (although holders or other beneficial owners of the Bonds will have the sole remedy of bringing an action for specific performance). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price. The form of the Continuing Disclosure Undertaking is set forth in Appendix E.

FINANCIAL ADVISOR

The Issuer has retained Springsted Incorporated of St. Paul, Minnesota, as financial advisor (the "Financial Advisor") in connection with the issuance of the Revenue Bonds. The Financial Advisor is not a public accounting firm and has not been engaged by the Issuer to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Revenue Bonds.

UNDERWRITING

The Commissioner of Finance acting on behalf of the Retirement Systems has sold the Revenue Bonds at public sale to U.S. Bancorp Piper Jaffray Inc., as Underwriters, for a price of \$28,759,443.24 and accrued interest, the Revenue Bonds to bear interest at the rates set forth on the cover page of this Official Statement.

The Underwriters have advised the Commissioner that they will offer the Revenue Bonds to the public at the initial public offering prices set forth on the cover page of this Official Statement, and that after the Revenue Bonds are released for sale to the public, the offering prices and other selling terms may from time to time be varied

by the Underwriters.

RATINGS

The Revenue Bonds described herein have been rated "Aaa" by Moody's Investors Service, Inc., "AAA" by Standard and Poor's Ratings Group and "AAA" by Fitch Investors Service, L.P. The ratings reflect only the views of these services. For an explanation of the ratings as described by those services see Appendix F. These bond ratings are subject to change or withdrawal by the rating agencies at any time. Therefore, after the date hereof investors should not assume that such ratings are still in effect. A revision or withdrawal of the ratings may have an adverse effect on the market price and marketability of the Revenue Bonds.

MISCELLANEOUS

Any statements made in this Official Statement involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The summaries and descriptions contained in this Official Statement and the Appendices hereto of the provisions of the Revenue Bonds, the Order, the Joint Payment and Pledge Agreement, Co-Tenancy Agreement and the Continuing Disclosure Agreement and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or described all of the provisions thereof.

AUTHORIZATION OF OFFICIAL STATEMENT

The Commissioner of Finance and the Retirement Systems have prepared and delivered this Official Statement to the Underwriters of the Revenue Bonds and have authorized the Underwriters to use it in connection with the offering and sale of the Revenue Bonds to investors.

As of the date of the settlement of the Revenue Bonds, the Purchaser will be furnished with a certificate signed by the Commissioner of Finance. The certificate will state that as of the date of the Official Statement, the Official Statement did not and does not as of the date of the certificate contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

APPENDIX A

Defined Terms

For purposes of this Official Statement and the Commissioner's Order the following terms have the following meanings:

Act means Minnesota Statutes, Section 356.89.

Available Assets means all Total Assets less Excluded Assets.

Basic Plan means the portion of assets held for a very few of the TRA and PERA contributing members who are not covered by Social Security.

Basic Retirement Fund means the portion of the retirement systems assets that provide funding for active employees and those who have terminated from service, but have not begun to receive monthly retirement benefits.

Bond Registrar or Registrar means The Chase Manhattan Bank, N.A., in New York, New York, and any successor entity, acting as bond registrar and paying agent for the Revenue Bonds under the Order.

Business Day means any day on which commercial banks located in the State are open for commercial business.

Cash Balance means cash and short-term investments for each Retirement System held in the Pension Fund Depository Accounts in an amount not less than their pro rata share of debt service due on the Revenue Bonds on the next Debt Service Payment Date.

Collateral Documents means, collectively, the Joint Payment and Pledge Agreement, the Co-Tenancy Agreement, and all of the documents, agreements and instruments providing for or relating to the financing or operation of the Facility and the Revenue Bonds.

Commissioner means the Commissioner of Finance of the State of Minnesota.

Co-Tenancy Agreement means that certain Co-Tenancy Agreement among the Retirement Systems governing the construction, use, operation and maintenance of the Facility, as the same may be amended from time to time.

Debt Service Fund or Pension Building Debt Service Fund means the separate and special pension building debt service fund established in the State treasury.

Debt Service Payment Default means failure of a Retirement System to deposit with the Commissioner its Debt Service Payment on or before a Debt Service Payment Date.

Debt Service Payment means each Retirement System's allocated share of debt service on the Revenue Bonds based on its Ownership Interest as set forth in Section 3.1 of the Joint Payment and Pledge Agreement.

Debt Service Payment Date means May 15 and November 15 of each year commencing November 15, 2000.

Excluded Assets means all amounts reserved for various retirement annuities and benefits and deposited in the Minnesota Postretirement Investment Fund created under Minnesota Statutes Chapter 11A.18, amounts contributed to and deposited in the general fund for the Elected State Officers Retirement Plan under Minnesota Statutes Chapter 352C, amounts contributed to and deposited in the Legislators Retirement Plan under Minnesota Statutes Chapter 3A, amounts contributed to and deposited in the Supplemental Investment Fund for participants in the Unclassified Employees Retirement Plan under Minnesota Statutes Chapter 352D, amounts contributed to the state's "457" Deferred Compensation Plan, any other funds which are related to or are dedicated to defined

contribution plans administered now or in the future by the Retirement Systems and any funds temporarily transferred from the Post-Retirement Fund to the Basic Retirement Fund to be paid to retired beneficiaries of the Retirement Systems.

Facility means the acquisition, designing, construction, furnishing and equipping of a building and related facilities to be jointly occupied by the Retirement Systems.

Fiscal Year means the fiscal year of each of the Retirement Systems which commences on July 1 in each year and ends on June 30 of the following year.

Government Obligations means obligations which are general obligations or guaranteed as to the payment of principal and interest by the United States government.

Interest Payment Date means each June 1 and December 1, commencing December 1, 2000.

Invested Treasurer's Cash (ITC) means a pooled fund consisting of all cash on hand in the State treasury, not otherwise invested. Participating funds/accounts include such state government entities as the Trunk Highway Fund, Municipal State Aid Street Fund, Health Care Access Fund, Infrastructure Development Fund, various bond proceeds accounts, and approximately 200 other entities.

Joint Payment and Pledge Agreement means the Joint Payment and Pledge Agreement, dated as of June 1, 2000, between the Commissioner and the Retirement Funds.

Material means, with respect to litigation involving the Retirement Systems, litigation involving claims for \$10.000,000 or more.

MSRS means the State of Minnesota State Retirement System.

Order means the Order dated June 1, 2000, summarized in Appendix D executed by the Commissioner pursuant to the Act, authorizing the sale and issuance of the Revenue Bonds and providing for the payment and security of the Revenue Bonds.

Outstanding, when used with respect to all Revenue Bonds means all Revenue Bonds except:

- (i) Revenue Bonds theretofore canceled by the Commissioner or delivered to the Commissioner canceled or for cancellation;
- (ii) Revenue Bonds which have been discharged as provided in Section 5.08 of the Order; and
- (iii) Revenue Bonds in exchange for or in lieu of which other Revenue Bonds shall have been issued and delivered in accordance with the order of the Commissioner authorizing their issuance.

Ownership Interest means initially for the Minnesota State Retirement System: 20.4%, for the Public Employees Retirement Association: 39.7%, and for the Teachers Retirement Association: 39.9% as the same may change from time to time as permitted in the Co-Tenancy Agreement.

Pension Building Debt Service Fund or *Debt Service Fund* means the separate and special fund established in the State treasury used to record the transfer and disbursement of Debt Service Payments on the Revenue Bonds.

Pension Building Fund means the separate and special fund established in the State treasury used for the purpose of the payment of construction and related costs of the Facility.

PERA means the State of Minnesota Public Employees Retirement Association.

Pension Fund Depository Accounts means the accounts in the State treasury holding monies which have

not been certified to the State Board of Investment for the benefit of (a) the following plans managed by MSRS (i) State Employees Retirement Fund, (ii) Highway Patrol Retirement Fund, (iii) Judicial Retirement Fund and (iv) Correctional Employees Retirement Fund; (b) the following plans managed by PERA (i) Public Employees Retirement Fund, (ii) Police and Fire Fund, and (iii) Local Government Correctional Officers Fund; and (c) the Teachers Retirement Fund, managed by TRA;

Permitted Investments means investments authorized by Minnesota Statutes, Section 11A.24 or any successor statute.

Pledged Assets means the Available Assets of the Retirement Systems pledged pursuant to Minnesota Statutes, Chapter 356.89, Subd. 5 (1999 Supp.) to the extent set forth in Section 3.3 of the Joint Payment and Pledge Agreement and all funds held in the Pension Building Debt Service Fund.

Post-Retirement Fund means the portion of the retirement systems assets that provide funding for retired members who are receiving monthly retirement benefits. When a member retires, assets sufficient to pay monthly benefits for their lifetime are transferred from the Basic Retirement Fund to the Post-Retirement Fund.

Rating Agencies means Moody's Investors Service, Inc., Standard & Poor's Ratings Group and Fitch Investors Service, L.P.

Registered Owner means the person or entity in whose name ownership of a Revenue Bond is recorded on the Bond Register maintained by the Registrar.

Registrar or *Bond Registrar* means The Chase Manhattan Bank, N.A., in New York, New York, and any successor entity, acting as bond registrar and paying agent for the Revenue Bonds under the Order.

Related Bond Documents means the Order and the Continuing Disclosure Agreement.

Retirement Systems means collectively, the Minnesota State Retirement System, the Public Employees Retirement Association of Minnesota and the Teachers Retirement Association, their Successors and assigns.

Retirement Systems Representative means the Manager of Finance of PERA.

Revenue Bonds means the Retirement System Building Revenue Bonds, Series 2000 issued by the Commissioner pursuant to the Act and the Order.

State means the State of Minnesota, or the State of Minnesota acting by and through its duly elected representatives and officers or its duly appointed officers and agents, as the case may be.

State Board of Investment or SBI means the Minnesota State Board of Investment.

Terminated System means, as of the date specified by the State legislature, any Retirement System deemed terminated by the State legislature.

Total Assets means all cash and short-term and long-term investments of the Retirement Systems held for the benefit of the retirement plans managed by the Retirement Systems.

TRA means the State of Minnesota Teacher's Retirement Association.

APPENDIX B

Summary of the Joint Payment and Pledge Agreement

The following is a summary of certain provisions of the Joint Payment and Pledge Agreement, which is qualified in its entirety by reference to the Joint Payment and Pledge Agreement. Capitalized terms used herein which are not required to be capitalized by proper grammar have the meaning set forth below or in Exhibit A.

Use of Proceeds and Debt Service Payments

Pursuant to the Joint Payment and Pledge Agreement, the Retirement Systems agree to make semiannual Debt Service Payments sufficient in amount to pay all principal of, premium, if any, and interest on the Revenue Bonds when due, each according to a pro rata share of its Ownership Interest in the Facility. The Retirement Systems also agree to pay the amount of any rebate payments required to be made under Section 148(f) of the Internal Revenue Code in respect of the Revenue Bonds, each according to a pro rata share of its Ownership Interest in the Facility.

The obligation of the Retirement Systems to make the Debt Service Payments required under the Joint Payment and Pledge Agreement is absolute and unconditional regardless of: (i) any lack of validity or enforceability of any of the Collateral Documents; (ii) any amendment or waiver of any provision of all or any of the Collateral Documents; (iii) the existence of any claim, setoff, defense or other rights which the Retirement Systems may have at any time against the Commissioner, any Bondholder, each other, or any other Person whether in connection with the Joint Payment and Pledge Agreement, the Collateral Documents or any transaction contemplated thereby or any unrelated transaction; (iv) the discontinuance of use by any Retirement System of any portion of the Facility; (v) any damage, destruction, casualty, condemnation or other event or condition involving the Facility which interrupts or terminates a Retirement System's use thereof; (vi) any dispute between or among the Retirement Systems relating to the Facility or the use, operation, maintenance or improvement thereof; (vii) the amount of the Revenue Bonds available for construction being insufficient to complete construction of the Facility; (viii) construction of the Facility being delayed, interrupted or discontinued for any reason; or (ix) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, not resulting from gross negligence or willful misconduct of the Commissioner.

Pledged Assets

To secure the payment of each Retirement System's Debt Service Payment when due, each Retirement System pledges and grants to the Commissioner a security interest in its Available Assets to secure payment of their respective Debt Service Payments. The pledge and security interest made in the Joint Payment and Pledge Agreement attaches only upon the occurrence of a Debt Service Payment Default, and only in the amount of the Debt Service Payment in default. All Available Assets of the Retirement Systems in excess of the necessary amount attached to secure payment of a Debt Service Payment under the Joint Payment and Pledge Agreement may be held, invested and used by the Retirement Systems for any other purpose authorized by law.

Each Retirement System covenants and agrees to maintain, as of May 1 and November 1 of each year, commencing November 1, 2000, the Cash Balance in its respective Pension Fund Depository Accounts. Each of the Retirement Systems further agrees not to certify any funds for investment to the State Board of Investment until they have transferred their respective Debt Service Payments to the Commissioner.

In the event of a Debt Service Payment Default, the Commissioner shall first attach and seek payment from the defaulting Retirement System's respective Pension Fund Depository Accounts. In the event of a Debt Service Payment Default, the defaulting Retirement System irrevocably assigns to the Commissioner the right to attach and use such cash and short-term investments and directs and authorizes the State Treasurer to pay the Commissioner, on its behalf, all amounts necessary to cure the Debt Service Payment Default.

If at any time the defaulting Retirement System's respective cash and short-term investments are not sufficient to cure the Debt Service Payment Default, the defaulting Retirement System shall assign and delegate to the Commissioner its authority to certify to the State Board of Investment that Available Assets are required for

immediate use and to direct the State Board of Investment to sell securities in an amount sufficient to cure the Debt Service Payment Default. Each Retirement System irrevocably directs and authorizes the State Board of Investment to transfer an amount equal to its Debt Service Payment Default from its Available Assets held by the State Board of Investment if requested by the Commissioner pursuant to the Joint Payment and Pledge Agreement.

In the event of a Debt Service Payment Default for which Available Assets are attached pursuant to the Joint Payment and Pledge Agreement, the Commissioner may, without any notice to or consent of any of the Retirement Systems or any other person, exercise any right or remedy available to it under the Joint Payment and Pledge Agreement, collect or otherwise convert into cash or cash equivalents the amount of Pledged Assets necessary to cure the default and may sell, assign and deliver or otherwise dispose of or liquidate the whole or a portion of that amount of Pledged Assets in such manner and upon such terms and conditions as the Commissioner may deem reasonable and proper; provided, however, that all such dispositions must be made in a commercially reasonable manner as required by the State Uniform Commercial Code.

Completion, Ownership and Insurance

The Retirement Systems represent that the proceeds of the Revenue Bonds will be sufficient to pay the costs of issuance of the Revenue Bonds and the acquisition and construction of the Facility. The Retirement Systems agree they will not modify or add to the size or nature of the Facility if it would cause the total costs of acquisition and construction of the Facility to exceed the available proceeds of the Revenue Bonds unless the Retirement Systems pay such additional costs directly or deposit into a separate account of the Pension Building Fund other available cash or cash equivalents sufficient to pay such additional costs.

The Retirement Systems further agree that so long as the Revenue Bonds are outstanding, the Retirement Systems will continue their ownership of the Facility, provided that any one or more of the Retirement Systems may sell or convey its interest in the Facility to another one or more of the Retirement Systems as contemplated in the Co-Tenancy Agreement. The Retirement Systems will maintain the Facility in good condition, and free from all liens.

The Retirement Systems agree to procure and keep in force insurance on the Facility, protecting against loss or damage by fire, tornado, windstorm, flood, theft and all other causes customarily insured against for like properties, in amounts sufficient to cover total loss thereof. In lieu of maintaining the insurance coverage, each of the Retirement Systems have the right to adopt alternative risk management programs which the governing body of any Retirement System determines to be reasonable and in the best interests of the Retirement System, including without limitation, to self-insure in whole or in part, individually or in connection with other institutions or organizations. In the event of loss covered by said insurance policies, the proceeds shall be used to repair or restore the damage to the Facility or to retire the Revenue Bonds.

Certain Additional Covenants of the Retirement Systems

- (1) <u>Financial Statements</u>. The Retirement Systems each agree to provide the Commissioner, as soon as available, but not later than December 20 of each year, their audited annual financial statements.
- (2) <u>Additional Bonds</u>. Each of the Retirement Systems covenants and agrees that it will not pledge its Available Assets or agree to obligate itself to pay debt service on additional bonds issued to construct, improve or expand the Facility. Nothing the Joint Payment and Pledge Agreement prevents the Retirement Systems from pledging their Available Assets or obligating themselves to pay debt service on bonds issued for any other purpose as authorized by law.
- (3) <u>Debt Service Payments as Administrative Expenses</u>. The Retirement Systems acknowledge that Debt Service Payments and other deposits to the Pension Building Debt Service Fund constitute valid administrative expenses of the respective Retirement Systems, are expenditures made for the exclusive benefit of their members and beneficiaries, and must be annually budgeted. In each annual budget the Retirement Systems shall include and set forth their respective share of Debt Service Payments for the next year, as determined by the Commissioner.

- Termination of Retirement Systems. Each of the Retirement Systems covenants and agrees that if it becomes a Terminated System, unless the other Retirement Systems acquire 100% of the Terminated System's Ownership Interest, the Terminated System will deposit with the Commissioner, on or before the date specified by the State legislature as the termination date of the Terminated System, for credit to the Pension Building Debt Service Fund, an amount sufficient to pay the principal and interest and premium, if any, on the principal amount of the Revenue Bonds then outstanding in a principal amount equal to their Ownership Interest until the earliest date on which the Revenue Bonds may be called for redemption. Upon such deposit, the Terminated System's obligation to make Debt Service Payments pursuant to the Joint Payment and Pledge Agreement shall terminate.
- (5) <u>Maintenance of Status</u>. Each of the Retirement Systems covenants and agrees that it will not take any action which would cause it to lose its status as a "tax qualified" or "governmental" plan under federal law.

Events of Default

The following events constitute "Events of Default" under the Joint Payment and Pledge Agreement:

- (a) Any representation or warranty made by any of the Retirement Systems in the Joint Payment and Pledge Agreement or any of the Collateral Documents proves to have been untrue or misleading in any material respect as of the date made or deemed made; or
- (b) Failure of any of the Retirement Systems to deposit its Debt Service Payment with the Commissioner on or before the Payment Date as required in the Joint Payment and Pledge Agreement and the continuance of such default for a period of five (5) days; or
- (c) Default by any of the Retirement Systems in the performance or observance of any covenant, agreement, or obligation under the Joint Payment and Pledge Agreement or any Related Bond Document (other than as set forth in clauses (a) or (b) above) and the continuance of such default for a period of thirty (30) days after written notice thereof is given by the Commissioner to the Retirement Systems; or
 - (d) The occurrence and continuance of a Debt Service Payment Default.

Remedies on Default

If an Event of Default by any of the Retirement Systems occurs, the Commissioner may have access to and inspect, examine and make copies of all of the books and records and any and all accounts and similar data of the Retirement Systems, the Minnesota State Board of Investment, or any financial intermediary relating to the Pledged Assets; to the extent consistent with the Joint Payment and Pledge Agreement, exercise any of the remedies available to a secured party under the State Uniform Commercial Code with respect to the Pledged Assets; and take whatever action in law or equity which appears necessary or desirable to enforce the Joint Payment and Pledge Agreement or enjoin any acts or things that may be unlawful or in violation of the rights of the Commissioner. In the event any of the Retirement Systems should become a debtor in a proceeding filed by or against it under the United States Bankruptcy Code, the Commissioner shall file claims or proofs of claim and take whatever other actions may be required to recover the maximum amounts obtainable from the estate of the debtor.

APPENDIX C

Financial Statements of the Retirement Systems for the Fiscal Year Ended June 30, 1999

Section 1 - Minnesota State Retirement System

Section 2 - Public Employees Retirement Association

Section 3 - Teachers Retirement Association



Minnesota State Retirement System A Pension Trust Fund of the State of Minnesota

Comprehensive Annual Financial Report For the fiscal year ended June 30, 1999



Minnesota State Retirement System A Pension Trust Fund of the State of Minnesota

Comprehensive Annual Financial Report For the fiscal year ended June 30, 1999

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The headwaters of the Mississippi River at Itaska State Park in northwestern Minnesota.



Introductory Section

1

Board Chairman's Report

Dec. 31, 1999

Minnesota State Retirement System Affinity Plus Building, Suite 300 175 W. Lafayette Frontage Road St. Paul, MN 55107-1425

Dear Board Members, Benefit Recipients and Employers:

I am pleased to present the Comprehensive Annual Financial Report of the Minnesota State Retirement System for the fiscal year which ended on June 30, 1999. The funds administered by MSRS held net assets totaling \$9.03 billion, an increase of \$870 million from the previous year.

The tremendous increase in assets is mainly attributable to another year of excellent investment returns. The 1999 investment return was 11.7 percent and the average return for the last five years has exceeded 17.5 percent. These excellent returns have helped the three largest plans that MSRS administers, to reach funding ratios well in excess of 100 percent. The largest plans are the General Employees', Correcional and State Patrol. Also, retirees get to share in the strong investment return, which generated a record post-retirement increase of 11.1436, payable on Jan. 1, 2000.

MSRS is excited and prepared to meet the challenges going into the next millennium. We are focusing our attention on increased customer service to our members through internet access, improved communications and quicker response to inquiries. While we recognize the importance of providing information through improved technologies, we also know that having staff available to answer questions is vital to help you make confident retirement decisions.



We appreciate your support and are committed to maintaining the financial strength of the Minnesota State Retirement System.

Sincerely,

Kenneth Yozamp, chair MSRS Board of Directors

Letter of Transmittal

Dec. 31, 1999

Board of Directors Minnesota State Retirement System Affinity Plus Building, Suite 300 175 W. Lafayette Frontage Road St. Paul, MN 55107-1425

Dear Directors:

We are excited to present the Minnesota State Retirement System's *Comprehensive Annual Financial Report* for the fiscal year which ended on June 30, 1999. We provide retirement coverage for 71,500 active employees, 21,500 retirees and 21,100 members who no longer contribute, but are eligible for future monthly benefits. These members participate in 10 unique retirement plans.

The information contained in this report is the responsibility of MSRS management. The data is accurate and provides complete disclosure of the financial status of the funds administered by MSRS.

This report has four sections: Introductory, Financial, Actuarial and Statistical.

Accounting Systems and Reports

This report is prepared in accordance with the generally accepted accounting principles of the Governmental Accounting Standards Board. These financial statements comply with reporting requirements established under *Minnesota Statutes*, §356.20.

Transactions of the State Employees' Plan, State Patrol Plan, Correctional Plan, Judges' Plan, Elected State Officers' Plan, Legislators' Plan, Military Affairs Plan, Transportation Pilots' Plan, and the Unclassified Plan are reported on the accrual basis of accounting. The Deferred Compensation Plan is reported on the modified accrual basis of accounting.

 $Internal\,accounting\,controls\,ensure\,the\,reliability\,of\,all\,financial\,records\,and\,adequately\,safeguard\,assets.$

Revenues (Additions)

The revenues needed to finance benefits come from the collection of employee and employer contributions, and predominantly the income on investments. Income for fiscal year 1999 totaled \$1.2 billion. This year's investment return generated \$939 million and accounted for 78.7 percent of the revenue. The amount from employee and employer contributions totaled \$215.2 million.



Expenses (Deductions)

Expenses in 1999 totaled \$324.3 million, an increase of 14.7 percent more than last fiscal year. Monthly benefits, totaling \$265.3 million to retirees, survivors and disabled members, represented 82 percent of total expenses. In addition, \$26.2 million was paid to terminated employees in lump-sum refunds of contributions plus interest. Administrative expenses, excluding investment expenses, totaled \$5.6 million, which represents only 1.7 percent of total expenses.

Total revenues of \$1.2 billion exceeded expenses by \$870 million during fiscal year 1999.

Investments

Assets of the MSRS funds are invested by the State Board of Investment. This board includes the governor, attorney general, secretary of state, state auditor and state treasurer. Members of the board are subject to the *Prudent Person* rule, fiduciary standards detailed in *Minnesota Statutes*, §356A, and investment guidelines in *Minnesota Statutes*, §11A.

A 17-member Investment Advisory Council advises the board on investment policy. Also, investment consultants are hired to monitor and evaluate investment performance of the various investment firms hired by the State Board of Investment.

MSRS assets are pooled with the other statewide retirement funds, the Public Employees' Retirement Association and the Teachers' Retirement Association. The State Board of Investment divides assets into two funds: the Basic Retirement Fund and the Post-Retirement Fund. The Basic Retirement Fund provides funding for active employees and those who have terminated from state service, but have not begun to receive monthly benefits. Assets of retired employees are invested in the Post-Retirement Fund.

Basic Retirement Fund

The rate of return in the Basic Retirement Fund was 11.3 percent in the fiscal year ending June 30, 1999.

The goal of the Basic Fund is to finance future retirement benefits. The actuarial assumed rate of return of 8.5 percent is set by law in *Minnesota Statutes*, §356. Over a five year period, this fund is expected to outperform the median funds of public and private investors who have a similar asset allocation, and to generate a greater investment return than a composite of market indices that match the asset allocation. Over a 10 year period, the Basic Retirement Fund is expected to provide a rate of return that exceeds the rate of inflation by 3 percent to 5 percent.

The Basic Retirement Fund's asset allocation target is shown at the right.

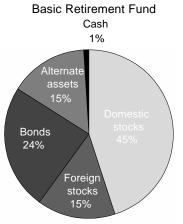
Post-Retirement Fund

The rate of return for the Post-Retirement Fund was 12.1 percent in fiscal year 1999. An 11.1436 percent increase will be paid to eligible retirees on Jan. 1, 2000.

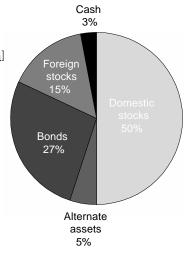
When a member retires, assets sufficient to pay monthly benefits for his or her lifetime are transferred from the Basic Retirement Fund to the Post-Retirement Fund with the expectation that the rate of return will be at least 6 percent. The goal of the Post-Retirement Fund is to provide income to pay monthly benefits, plus generate additional earnings to provide for a cost-of-living increase based on inflation up to 2.5 percent. Inflation is measured by the *U.S. Consumer Price Index*.

If the rate of return from the Post-Retirement Fund is more than needed to meet the expected 6-percent return and the cost-of-living increase, the additional investment gain is spread over a five-year period to help fund future increases. If the return is not sufficient to meet these financial requirements, the loss is distributed over the next five-year period.

The Post-Retirement Fund's asset allocation target is shown at the right.







MSRS

Funding

The three largest plans — the General Employees' Plan, State Patrol Plan and the Correctional Plan, which represent 97 percent all the liabilities of the plans administered by MSRS—exceed 100 percent funding. The excellent investment returns continue to enhance the plans financial strength.

The contribution rate for the Judges' Plan is sufficient to reach full funding before the targeted date of 2020. The Legislators' and Elected State Officers' Plans are not prefunded, and have been closed to new members since July 1, 1997.

The chart below shows the assets, liabilities and actuarial funding ratio of each fund as of June 30, 1999.

		(In Thousands)	
		Actuarial Basis	
Retirement Fund	Liabilities	Assets	Funding Ratio
State Employees'	\$5,464,207	\$5,968,692	109.23%
State Patrol	406,215	472,687	116.36
Correctional Employees'	307,408	335,408	109.11
Judges'	139,587	97,692	69.99
Legislators'	66,418	33,474	50.40
Elective State Officers'	3,373	198	5.87
	\$6,387,208	\$6,908,151	108.16%

More information regarding the funding of the plans administered by MSRS can be found on pages 48 and 49. The assumptions and actuarial details are governed by *Minnesota Statutes*, §356.215. The entry age normal method, with level contributions as a percent of payroll, is used as the actuarial funding method. The assets include one-third of the unrealized investment gains or losses.

Economic Outlook

Minnesota's economy continued its superb performance during the 1999 fiscal year. Personal income grew by 5.9 percent, 0.3 percent greater than the U.S. average of 5.6 percent. The state's unemployment rate continued to be among the lowest in the nation, reaching an all-time low of 2.1 percent in April. For fiscal year 1999, unemployment in Minnesota averaged 2.4 percent on a seasonally adjusted basis, down from the fiscal year 1997's average of 2.8 percent. Even with these low unemployment rates and historically high labor force participation rates, job growth was strong. During fiscal year 1999, payroll employment grew by a healthy 1.8 percent with more than 45,000 new jobs being added. Nationally, payroll employment grew by 2.1 percent.



Minnesota's economy is projected to grow at the same rate as the rest of the United States during fiscal year 2000. The strengthening of Asian economies will be important, since Minnesota is among the leaders of manufacturing output exported to Asia. Tight labor markets are expected to hold job-growth levels to less than the U.S. averages. Wage growth is expected to match the U.S. average as the labor shortage encourages the existing labor force into more productive and higher-paying positions.

Review of Operations and Activities of Fiscal Year 1999

MSRS is managed by an 11-member board of directors. Kenneth Yozamp and Mary Benner have continued as chairman and vice chairwoman, respectively.

Professional Services

The 1999 actuarial valuations were completed by Milliman & Robertson Inc. and reviewed by William M. Mercer Inc. The state legislative auditor conducted an independent audit of MSRS financial statements. The auditor's comments are on pages 16 and 17. Minnesota's Office of the Attorney General provides legal counsel for MSRS.

Acknowledgments

This report provides complete and reliable information to assist management decisions and determine legal and fiduciary compliance requirements. A summary will be published in the next issue of the next MSRS newsletter.

We extend special thanks to the board of directors, staff and other associates for their diligent efforts to make MSRS a successful organization.

Respectfully submitted,

David Bergstron

David Bergstrom
Executive Director

Arvin Herman Assistant Director

Arvin Forman

Administrative Organization - June 30, 1999

MSRS Board of Directors

Kenneth Yozamp, chairman c/o Middle Management Association 525 Park St., Suite 333 St. Paul, MN 55103 Telephone: (651) 222-3811

Term: May 6, 1996 to May 1, 2000 Elected: Correctional Plan member

Mary Benner, vice-chairwoman Department of Labor and Industry 443 Lafayette Road, Third Floor, CSG St. Paul, MN 55155

Telephone: (651) 282-6637 Term: May 6, 1996 to May 1, 2000

Elected: state employee

Donald M. Buckner 1152 Stryker Ave. W. St. Paul, MN 55118 Telephone: (651) 457-3853

Term: May 4, 1998 to May 1, 2000 Elected: retired state employee

Mathew Hodapp Minnesota State Patrol, District 2200 P. O. Box 4187 Mankato, MN 56002 Telephone: (507) 389-1172

Term: July 21, 1999 to May 6, 2002 Appointed: State Patrol Plan member

Carol Johnson State Treasurer 303 Administration Building St. Paul, MN 55155 Telephone: (651) 296-7091

Term: June 14, 1999 to May 6, 2003

Appointed: state official

David R. Kauppi Department of Revenue 600 N. Robert St. St. Paul, MN 55146 Telephone: (651) 296-3734

Term: July 16, 1998 to May 6, 2002

Appointed: state employee

John D. Richter Department of Revenue 3400 First St. N., No. 203 St. Cloud, MN 56303 Telephone: (320) 654-5515

Term: May 4, 1998 to May 6, 2002

Elected: state employee

Robert S. Rossman Amalgamated Transit Union 312 Central Ave., Suite 438 Minneapolis, MN 55414 Telephone: (612) 379-2914

Term: Feb. 27, 1996 to May 1, 2000 Appointed: Metro Transit designate

Mel Tan 1609 Selsmer Ave. Cloquet, MN 55720 Telephone: (218) 897-7689

Term: May 18, 1997 to Jan. 1, 2001

Appointed: public member

Luther C. Thompson Teachers' Retirement Association 500 Gallery Building 17 W. Exchange St. St. Paul, MN 55102 Telephone: (651) 297-4853

Term: May 6, 1996 to May 1, 2000

Elected: state employee

Roy Watson

PO Box 72 Rochester, MN 55903 Telephone: (507) 282-6180

Term: June 14, 1999 to Jan. 6, 2003

Appointed: public member

Administrative Staff

Executive Director: David Bergstrom
Assistant Directors: Arvin Herman
Ronald Schweitzer

Professional Consultants

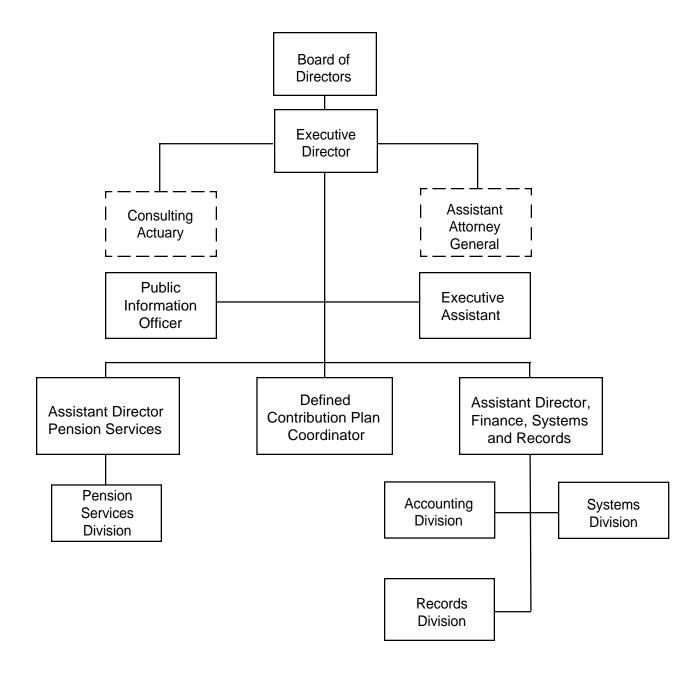
Legislative Actuary: Milliman & Robertson Inc.
Consulting Actuary: William M. Mercer Inc.

Legal Counsel: Assistant Attorney General Jon Murphy

Medical Advisor: Minnesota Department of Health



Organization Chart - June 30, 1999



MSRS

Summary of Retirement Plans

Purpose

The Minnesota State Retirement System was established by the state legislature in 1929 to provide retirement benefits to state employees. MSRS administers seven defined benefit plans and two defined contribution plans for most state employees and other selected public employees.

Administration

MSRS administration is governed by an 11 member board of directors. The board includes four elected General Plan members, one elected State Patrol Plan member, one elected Correctional Plan member, one elected retired member, one designated Metropolitan Council Transit Operations representative, and three members appointed by the governor.

MSRS management is vested with the executive director who administers the plans in accordance with Minnesota law and board policies. Plan descriptions follow.

Defined Benefit Plans

- 1. General Employees' Plan
 - A. Coverage: most state employees and selected metropolitan agency employees Contributions: 4 percent, employee; 4 percent, employer
 - B. Benefit formula
 - 1.2 percent of a five high year salary for first 10 years, then 1.7 percent each year beyond 10 years with subsidized early retirement adjustment
 - or 1.7 percent for all years of service with an actuarial equivalent, early retirement reduction
 - C. Retirement age and service years
 - age 65 with one year of service, no reduction
 - age 62 with 30 years of service, no reduction
 - Rule of 90, no reduction
 - age 55 with three years of service, reduced from age 65
 - any age with 30 years of service, reduced from age 62
 - total and permanent disability with three years of service
 - D. Surviving spouse benefit
 - if employee has at least 3 years of service at death, generally, the spouse is eligible for a 100 percent Joint and Survivor annuity or a refund
 - E. Refunds
 - contributions with 6 percent interest
 - F. Annuity and disability options
 - 100 percent, Joint and Survivor with bounce back
 - 50 percent. Joint and Survivor with bounce back
 - 15 Year Certain and Life Thereafter



2. Military Affairs and Transportation Pilots' Plans (provisions differing from General Plan)

- A. Coverage: required retirement from federal military status at age 60, or 62 for transportation pilots Contributions: 5.6 percent, employee; 5.6 percent, employer
- B. Retirement age and service years
 - age 60 to 62 for pilots with at least three years of service, no reduction

C. Disability

- eligible for disability if unable to perform duties with five years of service
- General Plan formula, no reduction
- pilots are entitled to 75 percent of salary for maximum of five years

3. State Patrol Retirement Plan

- A. Coverage: state troopers, conservation officers, crime bureau and gambling enforcement agents Contributions: 8.4 percent, employee; 12.6 percent, employer
- B. Benefit formula
 - 3 percent of successive, five high year salary for each year of service
- C. Retirement age and service years
 - age 55 with three years of service, no reduction
 - age 50 with three years of service, reduction from age 55

D. Disability

- eligible for disability if unable to perform duties with three years of service, and immediate coverage if disabled on the job
- job related disability, benefit is equal to 60 percent of five high year average salary, plus 3 percent for each year beyond 20; minimum non-job related disability is 45 percent

E. Survivor benefits

- member death in service: spouse gets 50 percent of final average salary; with 10 or more years of service spouse's entitlement changes to 100 percent Joint and Survivor annuity when the employee would have reached age 55
- children get 10 percent of final average salary per child plus \$20 per month, prorated equally to the children until age 18, or 23 if a student, or until married; total benefit limited to 40 percent of final average salary
- refund with 6 percent interest if no survivor benefit payable

F. Refunds

- contributions with 6 percent interest
- G. Annuity and disability option
 - 100 percent Joint and Survivor with bounce back
 - 50 percent Joint and Survivor with bounce back



4. Correctional Employees' Plan (provisions differing from General Plan)

A. Coverage: employees who have direct contact with inmates at Minnesota correctional facilities Contributions: 5.69 percent, employee; 7.98 percent, employer

B. Benefit formula

- 2.4 percent of five high year average salary for each year of service or an accelerated annuity to age 62 or 65, then an actuarially adjusted benefit thereafter

C. Retirement age and service years

- age 55 with three years of service
- age 50 with three years of service, reduction from age 55
- job related disability, benefit equals 50 percent of five high year average salary plus 2.4 percent for each year beyond 20; the minimum non-job related disability is 36 percent

5. Judges' Retirement Plan

A. Coverage: district, appellate and supreme court judges
Contributions: 8 percent by those not covered by Social Security, 6.27 percent by those covered
by Social Security; 20.5 percent, employer

B. Benefit formula

- 2.7 percent for each year of service prior to July 1, 1980, plus 3.2 percent of same average salary for service after June 30, 1980; formula applied to five high year average salary within last decade

C. Retirement age and service years

- age 70 with one year of service, no reduction
- age 65 with five years of service, no reduction
- age 62 with five years of service, reduction from age 65

D. Disability

- eligible for disability if unable to perform duties
- continuation of full salary for one year, then as computed under the formula with no reduction, and subject to minimum of 25 percent of five high year salary

E. Survivor benefits

- spouse eligible for 60 percent of normal annuity, subject to a minimum of 25 percent of final average salary

F. Refunds

- contributions with 5 percent interest

G. Annuity and disability options

- 100 percent Joint and Survivor with or without bounce back
- 50 percent Joint and Survivor with or without bounce back
- 15 Year Certain and Life Thereafter
- 10 Year Certain and Life Thereafter



General Fund Plans

6. Legislators' Retirement Plan

A. Coverage: legislators; newly elected legislators are covered by the Unclassified Plan as of Jan. 1, 1999

Contributions: 9 percent, employee; as needed from General Fund appropriation, employer

B. Benefit formula

- 2.5 percent five high year average salary, plus a variable actuarial adjustment based on your retirement age

C. Retirement age and service years

- age 62 with six years of service, no reduction
- age 55 with six years of service, reduction from age 62

D. Survivor benefits

- spouse gets 50 percent of benefit or 100 percent Joint and Survivor amount, if legislator is age 60 or more at death
- first child gets 25 percent, next two children get 12.5 percent for a 100 percent maximum

E. Refunds

- contributions with 6 percent interest

F. Annuity options

- 100 percent Joint and Survivor with bounce back, discounted by value of free 50 percent spousal benefit applicable
- 100 percent and 50 percent Joint and Survivor options for other than spouse

7. Elected State Officers' Plan

A. Coverage: elected constitutional officers; newly elected constitutional officers are covered by the Unclassified Plan as of Jan. 1, 1999

Contributions: 9 percent, employee; as needed from General Fund appropriation, employer

B. Benefit formula

- 2.5 percent of five high year average salary, plus a variable actuarial adjustment based on your retirement age

C. Retirement age and service years

- age 62 with eight years of service, no reduction
- age 60 with eight years of service, reduction from age 62

D. Survivor benefits

- spouse gets 50 percent of benefit
- first child gets 25 percent, next two children get 12.5 percent for a maximum of 100 percent

E. Refunds

- contributions with 6 percent interest



Defined Contribution Plan

- 1. Unclassified Employees' Plan
 - A. Coverage: specified employees in unclassified positions Contributions: 4 percent, employee; 6 percent, employer
 - B. Benefits
 - account balance or annuity benefit withdrawal based on age and 6 percent interest assumption
 - C. Retirement age and service years
 - age 55 with any length of service
 - D. Refunds
 - account value
 - E. Annuity and Disability Option
 - 100 percent Joint and Survivor with bounce back
 - 50 percent Joint and Survivor with bounce back
 - 15 Year Certain and Life Thereafter

Expendable Trust Fund Plan

- 2. Deferred Compensation Plan Internal Revenue Code, Section 457
 - A. Coverage: optional for all state employees and political subdivisions' employees

 Contributions: tax deferred with a \$10 per pay period minimum and a 25 percent, gross, taxable compensation maximum or a \$8,000 maximum
 - B. Investment providers
 - Minnesota Supplemental Investment Fund (MSI)
 - Minnesota Mutual Life Insurance Co.
 - Great-West Life Assurance Co.
 - providers offer investment in various stock, bond and money market funds designed to meet individual investment objectives
 - C. Withdrawal events
 - termination of service or death
 - emergency
 - D. Withdrawal options
 - MSI Fund
 - lump sum
 - lump-sum purchase of fixed or variable annuity contract from insurance company
 - monthly installment over a specified period or specified amount
 - insurance companies
 - participant life
 - participant life or a period certain, whichever is greater
 - joint participant and named beneficiary lifetime
 - term certain payment

Plan descriptions are not all inclusive. Descriptions provide general information only.





Landmark Center, foreground, and World Trade Center, background, from Rice Park, St. Paul.



Financial Section

15

Independent Auditor's Report

Board of Trustees and Executive Director Minnesota State Retirement System

We have audited the accompanying basic financial statements of the Minnesota State Retirement System (MSRS) for the year ended June 30, 1999, as listed in the Table of Contents. These financial statements are the responsibility of MSRS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MSRS at June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The required supplementary information on pages 31 to 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We did not audit this information and do not express an opinion on it. The supplementary information is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted mainly of inquiries of management regarding the methods of measurement and presentation for the Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to Required Supplementary Information.

We were unable to apply to the year 2000 required supplementary information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria

Board of Trustees and Executive Director Minnesota State Retirement System Page 2

regarding the matter to be disclosed have not been established. In addition, we do not provide assurance that the MSRS is or will become year 2000 compliant, that its remediation efforts will be successful in whole or in part, or that parties with which MSRS does business are or will become year 2000 compliant.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information on pages 36 to 37 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have issued a report dated December 1, 1999, on our consideration of MSRS' internal control structure and compliance with laws and regulations.

James R. Nobles Legislative Auditor

Janus R. Molles

December 1, 1999

Claudia J. Gudvangen, CPA Deputy Legislative Auditor

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Statement of Plan Net Assets: Pension Trust Funds and Balance Sheet Expendable Trust Fund (as of June 30, 1999)

(In Thousands)

	Pension Trust Funds					_			
		Defined Benefit Funds			Defined <u>Contribution Fund</u>	Expendable <u>Trust Fund</u>			
	State Employees	State Patrol	Correctiona Employees		Legislators	Elected State Officers	Unclassified Employees	Deferred Compensation	Totals (Memorandum Only)
Assets:									
- cash	\$ 1,247	\$ 11	\$232	\$ 143	0	0	146	540	2,319
- short term investments	52,387	5,815	6,356	2,712	0	0	2,671	5,025	74,966
- accounts receivable:	02,007	0,010	3,223	_,, =	Ŭ		- , 0 / 1	0,020	7 1,700
member contributions	4,143	258	362	61	0	0	167	2,099	7,090
employer contributions	4,141	387	507	156	0	0	250	0	5,441
other	68	5	2	6	0	0	9	163	253
accrued interest	165	10	10	1	0	0	0	0	186
- due from MPRI Fund	451	0	0	380	0	0	0	0	831
- due from other plans	1,082	0	308	0	0	0	85	0	1,475
•	1,062	U	306	U	O	U	83	U	1,473
investment pools (at fair value):fixed income	007 000	<i>57</i> , 200	52 52A	4,946	0	0	0	0	1 000 577
	906,888	57,209	53,534	,	0	0	0	0	1,022,577
external domestic equity	1,594,876	100,609	94,147	8,698	0	0	0	0	1,798,330
et passive domestic equity	757,360	47,776	44,708	4,130	0	0	0	0	853,974
Real Estate Fund	151,196	9,537	8,926	824	0	0	0	0	170,483
Minnesota Resources Fund	30,990	1,955	1,829	169	0	0	0	0	34,943
Minnesota venture capital	199,764	12,602	11,799	1,090	0	0	0	0	225,255
global equity	639,137	40,319	37,729	3,486	0	0	0	0	720,671
Supplemental Investment Fund	0	0	0	0	0	0	257,256	649,682	906,938
Post-Retirement Fund	2,655,241	290,299	127,997	94,434	34,466	0	0	0	3,202,437
- securities' lending collateral	674,564	55,027	36,716	11,947	3,538	0	18,433	40,526	840,751
 fixed assets 	115	0	0	0	0	0	0	0	115
 nondedicated member deposits 	0	0	0	0	7,064	203	0	0	7,267
Total assets	\$7,673,815	\$621,819	\$425,162	\$133,183	45,068	203	279,017	698,035	9,876,302
Liabilities:									
- accounts payable	\$ 2,079	\$ 102	\$ 98	\$ 13	6	4	447	522	3,271
- securities' lending collateral	674,564	55,027	36,716	11,947	3,538	0	18,433	40,526	840,751
- deferred revenue	0	0	0	10	0	0	0	0	10
- due to MPRI Fund	0	2,283	1,179	0	283	0	0	0	3,745
- due to other plans	<u>373</u>	64	148	31	38	1	125	695	1,475
Total liabilities	677,016	57,476	38,141	12,001	3,865	5	19,005	41,743	849,252
									
Fund balance:									
- employee Deferred Compensation	N/A	N/A	N/A	N/A	N/A	N/A	N/A	654,566	654,566
- administrative reserve	0	0	0	0	0	0	0	1,726	1,726
Total fund balance	0	0	0	0	0	0	0	656,292	656,292
Total liabilities and fund balance	677,016	57,476	38,141	12,001	3,865	5	19,005	$\frac{0}{698,035}$	1,505,544
Net assets held in trust for pension benefits:	<u>\$6,996,799</u>	\$564,343	\$ 387,021	\$ 121,182	41,203	198	260,012	N/A	8,370,758

A Schedule of Funding Progress and a Schedule of Employer Contributions for each of the defined benefit plans are discussed in the Notes to the Financial Statements.

See Notes to the Financial Statements.

version p18-19

Statement of Changes in Plan Net Assets Pension Trust Funds (Year ended June 30, 1999)

(In Thousands)

Defined Contribution

		Defined Benefit Funds				Fund		
	State Employees		Correctional Employees'	Judges'	Legislators'	Elective State Officers'	Unclassified Employees	Totals (Memorandum <u>Only)</u>
Additions:								
- member contributions	\$66,823	\$3,850	\$6,378	\$2,069	\$674	\$26	\$3,885	\$83,705
- employer contributions	65,979	5,712	8,172	5,301	2.001	0	5,574	90,738
General Fund revenuestransfers from other plans	0 5,368	0 17	0 2,514	1,751 0	2,091 0	40 0	0 1,102	3,882 9,001
- asset fees collected	0	0	2,514	0	0	0	926	926
- other income	39	0	4	10	0	0	0	53
Total	138,209	9,579	17,068	9,131	2,765	66	11,487	188,305
Investment income:	718,353	61,009	39,314	12,276	3,229	0	31,537	865,718
Less investment expense:	5,274	339	301	28	0	0	1	5,943
Net investment income	713,079	60,670	39,013	12,248	3,229	0	31,536	859,775
Income from securities lending activities: securities' lending income securities' lending expenses: borrower rebates	34,893 s 30,699	2,847 2,506	1,899 1,670	618	183 161	0		41,512 36,525
- management fee		2,300	60	19	6	0	31	1,300
Total securities' lending expenses	31,794	2,595	1,730	564	167	0	975	37,825
Net income from securities'								
lending activities	3,099	252	169	54	16	0	97	3,687
Total additions	854,387	70,501	56,250	21,433	6,010	66	43,120	1,051,767
Deductions:								
- annuity benefits	207,962	22,226	10,190	9,996	3,740	213	0	,
refundsinterest to MPRI Fund	11,110 628	16 310	425 201	375 28	49 4	86 0	7,673 0	19,734 1,171
- transfers to other plans	3,169	0		0	383	63	5,360	8,999
- asset fees collected	0	0	0	0	0	860	860	860
- administrative expenses	2,555	74	163	38	32	6	128	2,996
Total deductions	225,424	22,626	11,003	10,437	4,208	368	14,021	288,087
Net increase	628,963	47,875	45,247	10,996	1,802	(302)	29,099	763,680
Net assets, July 1, 1998	6,367,836	516,468	341,774	110,186	39,401	500	230,913	7,607,078
Net assets, June 30, 1999	\$6,996,799	\$564,343	\$387,021	\$121,182	\$41,203	\$198	\$260,012	\$8,370,758

MSRS

See Notes to the Financial Statements.

Statement of Revenues, Expenditures and Changes in Fund Balance, Expendable Trust - Deferred Compensation Fund (Year ended June 30, 1999)

Revenues:	
- investment income	79,049
- member contributions	40,774
- securities'lending income	2,371
- asset fees collected	2,272
- insurance company fees collected	1,690
- other income	2
Total	_126,158
Expenditures:	
- annuity benefit	11,019
- refunds	5,333
- asset fees rebated	1,005
- borrower rebates	2,074
- management fees	73
- adminstrative expenses	<u>2,644</u>
Total expenditures	22,148
Revenues in excess of expenditures	104,010
Other financing sources (uses):	
- transfers from other providers	16,756
- transfers to other providers	_(16,203)
Total other financing sources	553
Excess of revenues and other financing sources over (under) expenditures	
and other financing uses	104,563
Fund balance, July 1, 1998	_551,729



Fund balance, June 30, 1999

Notes to the Financial Statements

1. Description of the System

The Minnesota State Retirement System is the administrator of a multiple employer, cost sharing public employee retirement system. It consists of six defined benefit funds, one defined contribution fund and one expendable trust fund. On June 30, 1999, the number of employers contributing to the various funds was:

-	state of Minnesota	1
-	University of Minnesota	1
-	counties	52
-	cities	97
-	school districts	165
-	other	_ 78
		394

MSRS is a pension trust fund of the state of Minnesota and is included with other fiduciary funds in its comprehensive annual financial report. This report includes financial information for MSRS only.

2. Summary of Significant Accounting Policies

A. Basis of Accounting

The financial statements for the defined benefit funds, the defined contribution fund and the expendable trust fund are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized in the period when they become due. Payment is mandated in statute. Similarly, benefits and refunds are recognized when due and payable as specified by statute.

B. Investment Policies

Pursuant to *Minnesota Statutes*, the assets of MSRS funds are pooled with those of other funds and invested by the State Board of Investment. Investments primarily include obligations and stocks of the United States and Canadian governments, their agencies, registered corporations and short-term obligations of specifically high quality. Various alternative investments, including international securities, are limited by statute to 35 percent of the fund pool.

C. Investment Valuations

Investments are reported at fair value. Fair value is the proportionate share of the aggregate market value of the investment portfolio of the pool in which the funds participate. Market value is the last reported sales price for securities traded on national or international exchanges. If a security is not actively traded, then the market value is its estimated fair value. Short-term securities are reported at cost, which approximates fair value.



D. Fixed Assets

Fixed assets are office equipment and fixtures. They were capitalized at historical cost when acquired and depreciated using the straight-line method over estimated useful lives ranging from three to 20 years. Balances at June 30, 1999, were:

-	cost of equipment and fixtures	\$365,640
-	less accumulated depreciation	250,536
-	undepreciated balance	\$115,104

E. Nondedicated Member Deposits

Member contributions to the Legislators' and Elective State Officers' Funds are deposited into the general operating revenues of the state. In the event of plan termination, the state Department of Finance and the legislative auditor believe that Minnesota's General Fund is obligated to repay member contributions. Because this contingency is considered unlikely, these amounts have not been appropriated in the state's General Fund. These balances at June 30, 1999, were:

		(III Thousands)
-	Legislators' Retirement Fund	\$7,064
-	Elective State Officers' Fund	203
		\$7,267

F. Reserve Accounts

- Employee reserve

For the defined benefit funds, the employee reserve is credited with the cumulative employee contributions. Upon retirement, these contributions are combined with the necessary state reserve moneys and transferred to the Minnesota Post-Retirement Investment Fund to provide the resources for future annuity benefits. Employees who terminate their employment prior to retirement can choose to receive a refund of their contributions plus interest or a deferred annuity.

For the defined contribution fund (Unclassified Employees' Retirement Fund) and the expendable trust fund (Deferred Compensation Fund), the employee reserve includes all assets of the fund which are not reserved for the payment of administrative expenses.

ands)
10
05
03
90
956
194
170
566
594
1



- State reserve

For all funds except the Unclassified Employees' Retirement Fund and the Deferred Compensation Fund, the state reserve is credited with all investment earnings and employer contributions. For the Unclassified Employees' Retirement Fund and the Deferred Compensation Fund, they include the remaining balance of fees collected to pay administrative expenses.

	(III Thousands)
State Employees' Retirement Fund	\$3,009,988
State Patrol Retirement Fund	198,537
Correctional Employees' Retirement Fund	185,110
Judges' Retirement Fund	(1,124)
Legislators' Retirement Fund	(6,356)
Elective State Officers' Retirement Fund	(2,223)
Unclassified Employees' Retirement Fund	842
Deferred Compensation Fund	1,726
	\$3,386,500

- Minnesota Post-Retirement Investment Fund reserve

The MPRI Fund reserve equals the corresponding assets invested in it. The proceeds of the MPRI Fund are used to pay the monthly pension benefits of eligible retirees. This account is adjusted annually to fund the actuarial value of benefits remaining.

	(In Thousands)
State Employees' Retirement Fund	\$2,054,794
State Patrol Retirement Fund	225,179
Correctional Employees' Retirement Fund	99,324
Judges' Retirement Fund	72,997
Legislators' Retirement Fund	<u>26,737</u>
	\$2,479,031

G. Actuarial valuations

Actuarial valuations and experience studies are performed annually. The entry age method — a projected benefit cost method — is used to value the funds with contributions being made as a level percent of covered employee salaries. A salary scale of 5 percent for the State Employees' Retirement Fund, 6.5 percent for other funds, an interest assumption, and an 8.5 percent rate of investment return are used by the actuary to project full funding by 2030.

3. Cash and Investments

A. Cash

MSRS cash is deposited into the state's treasury accounts. On June 30, 1999, and throughout the year, these accounts were secured by pledged collateral and deposit insurance to the extent required by *Minnesota Statutes*.

B. Credit risk

Investments are classified according to their risk level. The three categories are:

- insured and registered investments or those whose securities are held by the state or its agent in the state's name.
- uninsured or unregistered investments whose securities are held by a counterparty's trust department or agent in the state's name.
- uninsured or unregistered investments whose securities are held by a counterparty's trust department or agent, in other than the state's name

All MSRS investments are held in State Board of Investment administered pools, open-end mutual funds or guaranteed investment contracts. None of these are considered securities for risk assessment purposes.

C. Investment Valuation

The combined funds' proportionate share in the cost and market values of the State Board of Investment's pools at June 30, 1999, were:

		(In Thousands)
Investment Pools	Cost	Market Value
Fixed Income	1,046,337	1,022,577
External Domestic Equity	1,500,388	1,798,330
Passive Domestic Equity	503,026	853,974
Real Estate	139,590	170,485
Minnesota Resources	47,097	34,943
Minnesota Venture Capital	235,680	225,255
Global Equity	635,330	720,671
Post-Retirement Fund	2,479,031	3,202,437
Supplemental Investment Fund	386,159	906,938
Total	\$6,972,638	\$8,935,610

D. Securities Lending

The amounts shown on the financial statement are MSRS' proportionate share of securities loaned, collateral pledged and loan income resulting from the lending activity of investment managers retained by the State Board of Investment.

4. Interfund Receivables and Payables

As of June 30, 1999, interfund receivables and payables were:

	(In Thousands)	
	Interfund Receivables	Interfund Payables
Defined Benefit Retirement Funds		
State Employees'	\$1,082	\$373
State Patrol		64
Correctional Employees'	308	148
Judges'		31
Legislators'		38
Elective State Officers'		1
Defined Contribution Retirement Fund		
Unclassified Employees'	85	125
Expendable Trust Fund		
Deferred Compensation		695
Totals	\$1,475	\$1,475



5. Leases

The office facilities are leased by an agreement through Sept. 30, 2001. Annual rental obligations by fiscal year are:

Fiscal Year Amount

2000	\$221,451
2001	\$243,348
2002	\$262,236

6. Year 2000 Commitments

As of June 30, 1999, MSRS had no resources committed to contracts to modify computer systems and other electronic equipment to make them year-2000 compliant. MSRS systems are developed and modified by MSRS employees.

7. Actuarial Asset Valuations

Minnesota Statutes provide that actuarial valuations must include only one-third of any unrealized market value gains or losses as of the valuation date. For balance sheet purposes and pursuant to the Governmental Accounting Standards Board's statement No. 25, assets are presented at fair market value. The unfunded liability determined using both methods as of June 30, 1999, were

	(In T	Thousands)
Retirement Fund	Actuarial Basis	Market Basis
State Employees'	\$ (504,485)	\$(932,146)
State Patrol	(66,472)	(93,007)
Correctional Employees'	(28,000)	(50,939)
Judges'	41,895	39,842
Legislators'	32,944	32,944
Elective State Officers'	3,175	3,175
	\$ (520,943)	\$(1,000,131)

8. Defined Contribution Fund Disclosures



MSRS administers one defined contribution plan, the Unclassified Retirement Fund. This fund is comprised of the Unclassified Employees' Retirement Plan, a multiple-employer defined contribution plan. Membership is limited to certain, specified employees of the state of Minnesota and various other statutorily designated entities. Membership statistics as of June 30, 1999, were:

-	Active members	1,693
-	Inactive members	1,387
	Total	3,080
-	Annualized payroll (June 30, 1999)	\$93,356,000
-	Participating employers	12
_	Contribution rates	
	Employee	4%
	Employer	6%

Minnesota Statutes, Section 352D.01.12 authorized creation of this plan. It is considered a *money purchase* plan, i.e., members vest only to the extent of the value of their accounts (employee contributions plus employer contributions plus [minus] investment gains [losses], less administrative expenses). Retirement and disability benefits are available through conversion, at the member's option, to the General Employees' Plan provided he or she had prior service in that plan or at least 10 years of service. This reversion option is actuarially valued as a contingent liability for the State Employees' Retirement Fund in the amount of \$10 million.

9. Optional Retirement Annuities

In the defined benefit funds, two Joint-and-Survivor options are available: a 50 percent or a 100 percent option. Annuities take the form of Joint-and-Survivor options with the right of reversion to the Single-Life amount, if the beneficiary dies before the member. A 15 Year Period Certain and Life Thereafter annuity is available. For the Judges' Plan a 10 Year Period Certain and Life Thereafter annuity is provided. The Legislators' and Elected State Officers' Plans provide, automatically, a 50 percent benefit continuance to a surviving spouse. Also, legislators can choose 100 percent survivor coverage with an actuarially reduced benefit.

10. Descriptions of Individual Defined Benefit Funds

A. State Employees' Retirement Fund

The State Employees' Retirement Fund includes the General Employees' Plan, a multiple employer, cost sharing plan, and the Military Affairs and Transportation Pilots' Plan, a single employer plan. Only certain employees of the Departments of Military Affairs and Transportation are eligible to be members of the Military Affairs and Transportation Pilots' Plan, but all state employees who are not members of another plan are covered by the General Employees' Plan. Membership statistics, as of June 30, 1999, follow:

Members	receiving	benefits:

Members receiving benefits:	
- retirees	16,667
- beneficiaries	1,811
Terminated members:	
- vested, not receiving benefits	10,663
- nonvested	8,220
Active members:	
- vested	35,353
- nonvested	11,815
Totals	84,529
Annualized payroll (June 30, 1999):	\$1,757,716,000
Participating employers	22

Minnesota Statutes, Section 352.04 requires that eligible employees contribute 4 percent of their total compensation. The employer contributes 4 percent. Retirement benefits can be computed by two methods: the step formula and the level formula. Step formula benefits are 1.2 percent of the high five year average salary for each of the first 10 years, plus 1.7 percent for each year thereafter. Also, it includes full benefits under the *Rule of 90*. In contrast, the level formula does not include the Rule of 90, benefits are 1.7 percent of the high five year average salary for all years of service, and full benefits are available at normal retirement age.



B. State Patrol Retirement Fund

The State Patrol Retirement Fund includes only the State Patrol Retirement Plan, a single employer plan. Membership is limited to those state employees who are state troopers, conservation officers, crime-bureau officers or gambling-enforcement agents. Membership statistics, as of June 30, 1999, follow:

Members	receiving	benefits:

- retirees	526
- beneficiaries	146
Terminated members:	
- vested, not receiving benefits	23
- nonvested	10
Active members:	
- vested	642
- nonvested	183
Totals	1,530
Annualized payroll (June 30, 1999):	\$47,034,000
Annualized payron (June 30, 1999).	\$47,034,000

Minnesota Statutes, Section 352B.02 requires that eligible employees contribute 8.4 percent of their total compensation, The employer contributes 12.60 percent. Members become eligible for normal retirement benefits at age 55 with a minimum of three years of service. The benefit is 3 percent of the high five year average salary for each year of service.

C. Correctional Employees' Retirement Fund

The Correctional Employees' Retirement Fund includes only the Correctional Plan, a single employer plan. Membership is limited to those state employees who have direct responsibility for inmates at Minnesota correctional facilities. Membership statistics, as of June 30, 1999, follow:

Members receiving benefits:

50
227
337
135
,123
759
,006

\$112,202,000

Annualized payroll (June 30, 1999):

Minnesota Statutes, Section 352.91 requires that eligible employees contribute 5.5 percent of their total compensation. The employer contributes 7.7 percent. Members become eligible for normal retirement benefits at age 55 with a minimum of three years of service. The benefit is 2.4 percent per year of service credit multiplied by the high five year average monthly salary. The monthly benefit can be received either as level lifelong payments or accelerated payments until age 62 or 65. If the payment is accelerated, upon attaining the reversion age, the benefit is adjusted actuarially for the larger payment provided.

D. Judges' Retirement Fund

The Judges' Retirement Fund includes only the Judges' Retirement Plan, a single employer plan. Active membership is limited to Minnesota district, appellate and supreme court judges. Also, retirees include municipal and county court judges. Membership statistics, as of June 30, 1999, follow:

Members receiving benefits:

Members receiving benefits.	
- retirees	155
- beneficiaries	83
Terminated members:	
- vested, not receiving benefits	11
- nonvested	1
Active Members:	
- vested	170
- nonvested	112
Totals	532
Annualized payroll (June 30, 1999):	\$27,080,000
* * · · · · · · · · · · · · · · · · · ·	, ,

Minnesota Statutes, Section 490.123 requires that eligible employees contribute 8.15 percent of the total compensation. The employer contributes 20.5 percent. Members become eligible for retirement benefits at age 65 with five years of service, age 62 with five years of service and a reduced benefit, or age 70, which is mandatory retirement, with one year of service. The benefit is 2.7 percent for each year of service prior to July 1, 1980, plus 3.2 percent of the same average salary for service after June 30, 1980. The formula is applied to the high five year average salary.

E. General Fund Plans

The General Fund Plans include the Legislators' Retirement Plan and the Elected State Officers' Plan. Each is a single employer plan. Members of the Minnesota House of Representatives and Senate are included in the Legislators' Retirement Plan; the Elected State Officers' Plan includes only the elected constitutional officers. Membership statistics, as of June 30, 1999, follow:

	Legislators'	Elected State Officers'
Members receiving benefits:	-	
- retirees	196	8
- beneficiaries	71	5
Terminated members:		
- vested, not receiving benefits	107	4
- nonvested	4	0
Active members:		
- vested	131	0
- nonvested	49	0
Totals	558	17 —
Annualized payroll (June 30, 1999):	\$6,571,000	NA *

Minnesota Statutes, Sections 3A.03 and 352C.09 require that legislators contribute 9 percent of their salary including certain per diem payments, and elected officers contribute 9 percent of their salary. Both plans are funded by annual appropriations from the state's General Fund.

Legislators are eligible for full retirement benefits upon reaching age 62 with six years of service or for a reduced benefit at age 60 with the same service. The benefit is 2.5 percent per year of service multiplied by the high five year average covered compensation, but not to exceed their final annual compensation. Except for a minimum eight-year service requirement, the Elected State Officers' Plan has the same benefit eligibility.

MSRS

11. Required Supplemental Information

A Schedule of Funding Progress and a Schedule of Employer Contributions for each of the defined benefit plans are presented in the pages which follow these notes.

^{*} The remaining six active employees have either retired or elected coverage under the Unclassified Plan. Since this plan is now closed, the new entrants will no longer be an active payroll.

Required Supplemental Information Schedule of Funding Progress

		3 3	(In Thousands))		
Year Ended June 30,	Actuarial Value Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unaudited Unfunded AAL (UAAL) (B-A)	Funded Ratio (A)/(B)	Actual Covered Payroll (Previous FY) (C)	UAAL as Percent of Covered Payroll (B-A)/(C)
State Em	ployees' Retiren	nent Fund:				
1991	\$2,304,311	\$2,883,603	\$579,292	79.91%	\$1,370,964	42.25%
1991	2,613,472	3,125,299	511,827	83.62	1,409,108	36.32
1993	2,905,578	3,563,492	657,914	81.54	1,482,005	44.39
1994	3,158,068	3,876,584	718,516	81.47	1,536,978	46.75
1995	3,462,098	3,795,926	333,828	91.21	1,514,177	22.05
1996	3,975,832	4,087,273	111,441	97.27	1,560,369	7.14
1997	4,664,519	4,519,542	(144,977)	103.21	1,568,747	-9.24
1998	5,390,526	5,005,165	(385,361)	107.70	1,557,880	-24.74
1999	5,968,692	5,464,207	(504,485)	109.23	1,649,469	-30.58
State Patr	ol Retirement F	und:				
1991	200,068	224,033	23,965	89.30	32,365	74.05
1992	222,314	233,656	11,342	95.15	32,882	34.49
1993	244,352	258,202	13,850	94.64	35,765	38.73
1994	262,570	275,377	12,807	95.35	35,341	36.24
1995	284,918	283,078	(1,840)	100.65	37,518	-4.90
1996	323,868	303,941	(19,927)	106.56	41,476	-48.04
1997	375,650	332,427	(43,223)	113.00	41,996	-102.92
1998	430,011	371,369	(58,642)	115.79	43,456	-134.95
1999	472,687	406,215	(66,472)	116.36	45,333	-146.63
Correctio	onal Employees'	Retirement Fund	:			
1991	105,925	112,171	6,246	94.43	43,429	14.38
1992	121,051	123,515	2,464	98.01	47,592	5.18
1993	135,939	134,280	(1,659)	101.24	52,122	-3.18
1994	148,163	152,702	4,539	97.03	54,673	8.30
1995	165,457	153,491	(11,966)	107.78	66,939	-17.83
1996	193,833	170,959	(22,874)	113.38	72,959	-31.35
1997	241,916	212,638	(29,278)	113.77	112,408	-26.05
1998	295,291	261,869	(33,422)	112.76	105,796	-31.59
1999	335,408	307,408	(28,000)	109.11	106,131	-26.38



Required Supplemental Information Schedule of Funding Progress

			(In Thousands) (Unaudited)			
Year Ended June 30,	Actuarial Value Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A)/(B)	Actual Covered Payroll (Previous FY) (C)	UAAL as Percent of Covered Payroll (B-A)/(C)
Judges' Ret	irement Fund:					
1991	\$33,559	\$ 78,429	\$44,870	42.79%	\$18,410	243.73%
1992	37,768	83,969	46,201	44.98	22,765	202.95
1993	44,156	90,509	46,353	48.79	22,084	209.89
1994	50,428	98,313	47,885	51.29	22,264	215.08
1995	56,813	102,238	45,425	55.57	22,877	198.56
1996	64,851	108,150	43,299	59.96	22,421	193.12
1997	74,681	117,714	43,033	63.44	22,909	187.84
1998	86,578	130,727	44,149	66.23	24,965	176.84
1999	97,692	139,587	41,895	69.99	32,940	127.19
Legislators'	Retirement Fun	nd:				
1991	14,694	30,403	15,709	48.33	7,078	221.94
1992	15,160	33,224	18,064	45.63	6,556	275.53
1993	17,169	36,801	19,632	46.65	7,322	268.12
1994	18,738	45,448	26,710	41.23	6,589	405.37
1995	21,213	50,255	29,042	42.21	7,056	411.59
1996	22,532	54,225	31,693	41.55	6,267	505.71
1997	25,678	60,055	34,377	42.76	7,767	442.60
1998	31,212	62,928	31,716	49.60	6,802	466.27
1999	33,474	66,418	32,944	50.40	7,490	439.84
Elective Sta	nte Officers' Ret	irement Fund:				
1991	308	2,249	1,941	13.69	422	459.95
1992	334	2,380	2,046	14.03	378	541.27
1993	322	2,689	2,367	11.97	500	473.40
1994	361	2,848	2,487	12.68	411	605.11
1995	378	2,948	2,570	12.82	422	609.00
1996	412	2,983	2,571	13.81	456	563.82
1997	456	3,214	2,758	14.19	467	590.58
1998	500	3,369	2,869	14.84	461	622.34
1999	198	3,373	3,175	5.87	291	1,091.07

Required Supplemental Information Schedule of Employer Contributions

(In Thousands) (Unaudited)

			(Unaudited)			
Year Ended June 30,	Actuarially Required Contribution Rate	Actual Covered Payroll (B)	Actual Member Contribution (B)	Annual Required Contribution [(A) x (B)] - (C)	Actual Employer Contribution*	Percent Contributed
State Employ	yees' Retiremen	t Fund:				
1991	8.17%	\$1,370,964	\$56,895	\$55,113	\$57,986	105.21%
1992	7.86	1,409,108	58,478	52,278	59,244	113.32
1993	8.27	1,482,005	59,132	63,430	58,982	92.99
1994	8.93	1,536,978	62,555	74,697	60,741	81.32
1995	9.15	1,514,177	61,627	76,920	63,161	82.11
1996	8.05	1,560,369	63,507	62,103	65,557	105.56
1997	7.21	1,568,747	63,848	49,259	66,568	135.14
1998	7.13	1,557,880	62,901	48,176	62,315	129.35
1999	6.48	1,649,469	66,823	40,063	65,979	164.69
State Patrol I	Retirement Fund	1:				
1991	22.15	32,965	2,751	4,418	4,825	109.21
1992	22.58	32,882	2,795	4,630	4,893	105.68
1993	22.27	35,765	3,040	4,925	5,288	107.37
1994	21.94	35,341	3,004	4,750	5,159	108.61
1995	21.79	37,518	3,189	4,986	5,583	111.97
1996	21.34	41,476	3,484	5,367	5,742	106.99
1997	21.33	41,996	3,746	5,212	6,151	118.02
1998	15.67	43,456	3,634	3,176	5,475	172.39
1999	14.14	45,333	3,850	2,560	5,712	223.13
Correctional	Employees' Ret	irement Fund:				
1991	10.73	43,429	2,128	2,532	2,731	107.86
1992	10.82	47,952	2,332	2,817	2,955	104.90
1993	11.41	52,122	2,554	3,393	3,217	94.81
1994	10.97	54,673	2,679	3,319	3,355	101.08
1995	11.30	66,939	3,280	4,284	4,195	97.92
1996	11.11	72,959	3,575	4,531	4,559	100.62
1997	11.21	112,408	5,508	7,093	9,129	128.70
1998	12.49	105,796	5,954	7,260	8,146	112.20
1999	12.99	106,131	6,378	7,408	8,172	110.31

st This includes contributions from other sources, if applicable.



Required Supplemental Information Schedule of Employer Contributions

(In Thousands) (Unaudited)

Year Ended June 30,	Actuarially Required Contribution Rate	Actual Covered Payroll (B)	Actual Member Contribution (B)	Annual Required Contribution [(A) x (B)] - (C)	Actual Employer Contribution*	Percent Contributed
Judges' Retire	ement Fund:					
1991	23.59%	\$18,410	\$ 799	\$3,544	\$ 0	0.00%
1992	25.10	22,765	988	4,726	4,722	99.92
1993	26.59	22,084	1,409	4,463	4.845	108.56
1994	26.29	22,264	1,416	4,437	4,912	110.71
1995	28.27	22,877	1,455	5,012	5,162	102.99
1996	27.32	22,421	1,426	4,699	4,972	105.81
1997	27.01	22,909	1,457	4,731	6,632	140.18
1998	27.60	24,965	1,570	5,320	7,129	134.00
1999	27.32	32,940	2,069	6,930	7,051	101.75
Legislators' R	etirement Fund:					
1991	32.62	7,078	637	1,672	1,889	112.98
1992	27.67	6,556	590	1,224	601	49.10
1993	30.49	7,322	659	1,573	2,284	145.20
1994	31.12	6,589	593	1,457	1,618	111.05
1995	38.34	7,056	635	2,070	2,938	141.93
1996	41.54	6,267	564	2,039	1,511	74.10
1997	43.96	7,767	699	2,715	3,176	116.98
1998	48.03	6,802	612	2,655	5,199	195.82
1999	47.19	7,490	674	2,861	2,091	73.09
Elective State	e Officers' Retire	ement Fund:				
1991	34.84	422	38	109	40	36.70
1992	33.28	378	34	92	111	120.65
1993	36.23	500	45	136	88	64.71
1994	38.64	411	37	122	164	134.43
1995	42.00	422	38	139	165	118.71
1996	43.58	456	41	158	151	95.57
1997	43.49	467	42	161	167	103.73
1998	51.07	461	42	193	175	90.67
1999	51.66	291	26	124	40	32.26

^{*} This includes contributions from other sources, if applicable.



(Unaudited)

Other Required Supplemental Information

Year 2000 Compliance Disclosure

In 1994, MSRS began planning for the year 2000 (Y2K) when it decided that all future enhancements to the system would be Y2K compliant. In 1997, we organized a plan to bring the system into compliance. We assessed our computer hardware and software. In 1998, we upgraded the system to compliance standards, when we replaced 95 percent of our desktop systems and all our servers. Next, we examined and corrected every program. The entire system has passed several statewide testing cycles and entered production in June 1999. We have been Y2K compliant since then and successfully traversed the fiscal year 2000 crossover in July. MSRS is confident that the system is ready for the new millennium.

Actuarial Assumptions

Actuarial valuations and experience studies are performed annually at fiscal year end. For this report, that was June 30, 1999. The entry age method — a projected benefit cost method — is used to value the funds with contributions being made as a level percentage of covered employee salaries. Assumed salary scales include projected annual increases of 5 percent for the State Employees' Retirement Fund and 6.5 percent for the other funds, with no additional allowances for inflation or cost-of-living adjustments. The assumed rate of investment return (interest assumption) is 8.5 percent before retirement and 6 percent after retirement. The unfunded amortization period is 30 years. These assumptions were used in valuing the preceding schedules.

Schedule of Administrative Expenses (Year ended June 30, 1999)

·	(In Thousands) (Unaudited) Total
Staff salaries Social Security Retirement Insurance Other personal services	\$ 1,914 141 78 182 4
Total	\$ 2,319
Professional services: - actuarial - data processing - disability examinations - legal counsel - other professional services	\$ 142 215 26 29 1,645
Total	\$ 2,057
Communication: - printing - telephone - postage - travel - subscriptions, memberships and training	\$ 411 23 189 16 17
Total	\$ 656
Rentals: - office space	<u>\$ 201</u>
Miscellaneous: - supplies - repairs and maintenance agreements - department head and board member exp - statewide indirect cost - depreciation - building consultant - other purchased services - state sales taxes - local sales taxes	\$ 153 22 13 100 39 23 37 17 1
Total	<u>\$ 407</u>
Total Operating Expenses	\$5,640
Expenses distributed by fund: - State Employees' - State Patrol - Correctional Employees' - Judges' - Legislators' - Elective State Officers' - Unclassified Employees' - Deferred Compensation	\$2,555 74 163 38 32 6 128 2,644
Total distribution	\$ 5,640



Summary Schedule of Commissions and Payments to Consultants

(In Thousands) (Unaudited)

Individ	ual or Firm Name	Services Received	Fees Paid
Willia	m Mercer Inc.	Consulting Actuary	\$ 69,947
State o	f Minnesota:		
-	Department of Health	Medical advisor	\$ 25,617
-	Office of the Attorney General	Legal	28,786
-	Legislative Commission on Pensions	Consulting Actuary	69,930
	and Retirement		



 $Small-town \, pastoral, \, Lanesboro \, area \, in \, southeastern \, Minnesota.$



Actuarial Section



Internationally WOODROW MILLIMAN

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December 30, 1999

Board of Trustees Minnesota State Retirement System 175 W. Lafayette Frontage Road St. Paul, Minnesota 55107-1425

Members of the Board:

We have completed our annual actuarial valuation of the Minnesota State Retirement System to test how well the fundamental financing objectives are being achieved and to determine the actuarial status of the State Employees Retirement Fund (SERF), the State Patrol Retirement Fund (SPRF), the Correctional Employees Retirement Fund (CERF), the Legislators Retirement Fund (LRF), the Elective State Officers Retirement Fund (ESORF) and the Judges Retirement Fund (JRF) as of July 1, 1999.

The fundamental financing objectives of the funds are to establish contribution rates which, when expressed as a percentage of active member payroll, will remain approximately level from generation to generation and meet the required deadline for full funding.

The results of the valuation indicate that the SERF, SPRF, CERF and JRF are either ahead of or on schedule to meet the required dates for full funding. The valuation of the LRF resulted in a deficiency in the current funding level of 43.72%. The ESORF no longer has any active participants. The level dollar deficiency for the ESORF, based on full funding by 2020, is \$321,000. It should be noted that with respect to the LRF and ESORF, the employer is required to fund the portion of the benefit liabilities which are not funded by the member's accumulated contribution at the time of benefit commencement.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 1999. In the aggregate, the basic financial membership data provided to us by the association office appears reasonable in comparison to last year. We have relied upon the data as submitted in performing the actuarial valuation. It is our understanding that the data has subsequently been audited with no significant changes made.

Board of Trustees December 30, 1999 Page Two

The six valuations were performed by using the actuarial cost methods and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state statute. All other assumptions are based on actual experience with changes recommended by the actuary, adopted by MSRS Board and approved by the Legislative Commission on Pensions and Retirement.

The following table shows the date for full funding for each of the plans and the funding percentage for the 1999 valuation. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the entry age normal cost method.

Fund	Funding Date	Funded Percentage
SERF	2020	109%
SPRF	2020	116
CERF	2020	109
LRF	N/A	50
ESORF	N/A	6
JRF	2020	70

We certify that to the best of our knowledge and belief, this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.

Thomas K. Custis, F.S.A. Consulting Actuary

TKC/bh

Summary of Actuarial Assumptions and Methods

Actuarial cost method	The entry age normal actuaria	l cost method, based on earnings and the
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date the employee entered the plan, is applied to all plan benefits. Under this method, actuarial gains or losses increase or decrease the

unfunded actuarial accrued liability.

Assumptions:

- Retirement State Employees' Plan⁽⁷⁾ — Graded rates from age 58 with 25 percent

of those eligible for Rule of 90 retiring each year; Correctional Plan⁽⁶⁾ — age 58; State Patrol Plan⁽⁶⁾ — age 58, if hired after June 30, 1961, or age 63 if hired before July 1, 1961; Judges' Plan⁽⁶⁾ — age 68;

State Elected Officers'⁽⁶⁾ and Legislators' Plans⁽⁶⁾ — age 62.

- Mortality The 1983 Group Annuity Mortality Tables⁽⁹⁾ are used for all funds.

These tables are set back or set forward (expressed in years) to match

fund experience as follows:

Fund	Pre-R Male	etirement Female	Post-Retirement * Male Female
State Employees'	-4	-2	0 0
State Patrol	-1	0	+2 +2
Correctional Employees'	-1	0	+2 +2
Judges'	-4	-2	0 0
Legislators'	-4	-2	0 0
Elective State Officers'	-4	-2	0 0

Separation Graded rates are based on actual experiences⁽⁸⁾.

- Expense Prior year expenses are expressed as a percentage of prior year payroll⁽⁸⁾.

- Interest Rates are 8.5 percent pre-retirement⁽⁷⁾ and 6 percent post-retirement⁽⁹⁾.

Salary increases The increase is 6.5 percent per year (6) (5 percent plus graded merit and

seniority assumption for State Employees' Retirement Fund⁽⁸⁾).

Contribution refund Employees who withdraw are assumed to take the larger of a refund or a deferred benefit⁽⁴⁾.

Social Security The Correctional Plan⁽³⁾ is based on the present law and a 6.5 percent salary

scale. Only state service earnings are used.

- Asset valuation This is cost plus one-third unrealized gains or losses⁽⁶⁾.

Effective dates assumptions adopted:

(1) June 30	, 1972	(5) June	30,	1980
(2) June 30	, 1973	(6) June	30,	1984
(3) June 30	, 1974	(7) June	30,	1989
(4) June 30	, 1979	(8) June	30,	1994
		(9) June	30,	1997

^{*} Post-retirement tables are statutorily gender neutral.

Required Reserves (as of July 1, 1999)

(In Thousands)

	State Employees' Fund	State Patrol Fund	Correctional Employees' Fund	Judges' Fund	Legislators' Fund	State Elective Officers' Fund
Active members:						
- retirement annuities	\$ 2,752,237 \$	163,711	\$ 175,545	\$48,811	\$16,877	\$0
- disability benefits	119,540	8,412	9,667	2,362	0	0
- survivor benefits	69,075	4,337	3,433	1,839	180	0
- deferred retirements	216,251	1,101	12,755	0	1,438	0
- refunds	(127,596)	(541)	(4,938)	233	(394)	0
Totals	\$ <u>3,029,507</u> \$	177,020	\$ 196,462	\$ 53,245	\$ 18,101	\$0
Deferred retirements	371,799	2,737	11,498	928	12,031	537
Former members not vested	5,486	259	124	14	55	0
Annuitants in MPRIF	2,054,794	225,179	99,324	72,997	26,737	0
Annuitants not in MPRIF	2,621	1,020	0	12,403	9,494	2,836
Total required reserves	\$ 5,464,207 \$	406,215	\$ 307,408	\$ 139,587	\$ 66,418	\$3,373

Actual Rates as Compared to Recommended Rates

	A -4	al Cantalla dia a		Recommended	Sufficiency
	Actu	al Contribution R	ates	Rate	(Deficiency)
	Employee	Employee	Total		
State Employees' Fund	4.00%	4.00%	8.00%	7.52%	0.48%
State Patrol Fund	8.40	12.60	21.00	13.21	7.79
Correctional Employees' Fund	5.69	7.98	13.67	13.31	0.36
Judges' Fund	6.28	22.00	28.28	26.71	1.57
Legislators' Plan	9.00	0.00	9.00	52.72	(43.72)
Elective Officers' Plan *	0.00	0.00	0.00	0.00	(0.00)

^{*} No active members contribute to this plan. Future benefits and expenses will be paid from appropriations of the Minnesota General Fund.



Schedule of Active Member Valuation Data

Valuation		Annual	Average	Percent Increase
Date	Number	Payroll	Annual Pay	In Average Pay
State Employees	s' Retirement Fund:			
06-30-89	48,653	\$1,418,160,000	\$29,148	4.14%
06-30-90	49,576	1,515,248,502	30,564	4.86
06-30-91	49,718	1,612,238,000	32,428	6.10
06-30-92	49,214	1,658,792,000	33,706	3.94
06-30-93	48,830	1,694,520,000	34,702	2.96
06-30-94	49,365	1,789,033,000	36,241	4.43
06-30-95	49,705	1,611,687,000	32,425	-10.53
06-30-96	49,914	1,643,419,000	32,925	1.52
06-30-97	46,289	1,612,662,000	34,839	5.81
06-30-98	46,299	1,664,588,000	35,953	3.20
06-30-99	47,168	1,757,716,000	37,265	3.65
State Patrol Ret	irement Fund:			
06-30-89	765	32,591,000	42,603	7.72
06-30-90	788	34,423,288	43,684	2.54
06-30-91	809	37,777,000	46,696	6.89
06-30-92	795	37,113,000	46,683	-0.03
06-30-93	781	40,654,000	52,054	11.50
06-30-94	788	41,462,000	52,617	1.08
06-30-95	803	39,838,000	49,611	-5.71
06-30-96	777	40,399,000	51,994	4.80
06-30-97	795	43,084,000	54,194	10.00
06-30-98	806	45,217,000	56,100	3.52
06-30-99	825	47,034,000	57,011	1.62
Correctional Em	nployees' Retirement F	und:		
06-30-89	1,317	41,976,000	31,872	4.06
06-30-90	1,416	47,075,739	33,245	4.31
06-30-91	1,463	50,821,000	34,738	4.49
06-30-92	1,573	56,044,000	35,629	2.57
06-30-93	1,618	60,330,000	37,287	4.65
06-30-94	1,761	70,562,000	40,069	7.46
06-30-95	2,117	71,022,000	33,548	-16.27
06-30-96	2,264	78,030,000	34,444	2.74
06-30-97	2,600	91,847,000	35,326	2.56
06-30-98	2,817	106,178,000	37,692	6.70
06-30-99	2,882	112,202,000	38,932	3.29
	,	, ,	,	



Schedule of Active Member Valuation Data

Valuation		Annual	Average	Percent Increase
Date	Number	Payroll	Annual Pay	In Average Pay
Judges' Retiremen	nt Fund:			
06-30-89	257	\$ 18,759,000	\$72,992	4.95%
06-30-90	262	20,191,649	77,064	5.58
06-30-91	271	21,570,000	79,594	3.28
06-30-92	271	22,181,000	81,849	2.83
06-30-93	267	22,469,000	84,154	2.82
06-30-94	265	22,302,000	84,158	0.01
06-30-95	271	23,429,000	86,454	2.73
06-30-96	280	24,287,000	86,739	33
06-30-97	279	24,420,000	87,527	.91
06-30-98	278	25,890,000	93,129	6.40
06-30-99	282	27,080,000	96,028	3.11
Legislators' Retire	ement Fund:			
06-30-89	201	6,114,000	30,418	23.97
06-30-90	201	6,430,000	31,990	5.17
06-30-91	201	7,554,000	37,582	17.48
06-30-92	200	6,753,000	33,765	-10.16
06-30-93	200	6,891,000	34,455	2.04
06-30-94	201	6,916,000	34,408	-0.14
06-30-95	198	7,193,000	36,328	5.58
06-30-96	201	7,423,000	36,930	1.66
06-30-97	201	7,626,000	37,940	2.73
06-30-98	199	7,289,000	36,628	-3.46
06-30-99	180	6,571,000	36,506	03
Election State Of	Singual Detinament Fr	J.		
Elective State Of	ficers' Retirement Fu	ınd:		
06-30-89	6	406,000	67,667	5.18
06-30-90	6	428,000	71,333	5.42
06-30-91	6	440,000	73,333	2.80
06-30-92	6	451,000	75,167	2.50
06-30-93	6	462,000	77,000	2.44
06-30-94	6	462,000	77,000	0.00
06-30-95	6	452,000	75,333	-2.16
06-30-96	6	475,000	79,167	5.09
06-30-97	6	483,000	80,500	1.68
06-30-98	6	500,000	83,333	3.52
06-30-99 *	0	0	0	N/A

^{*} No active members are in this fund.



Schedule of Retirees and Beneficiaries (Fiscal year end totals)

					Percent	
					Increase	Average
Year	Number	Number	Annual		In Annual	Annual
Ended	Added	Removed	Number	Benefits	Benefits	Benefit
State Employ	yees' Retirement l	Fund:				
06-30-89	742	540	13,079	\$ 69,604,000	9.27%	\$5,322
06-30-90	940	634	13,385	76,040,000	9.25	5,681
06-30-91	1,200	578	14,007	85,977,000	13.07	6,138
06-30-92	1,198	604	14,601	95,010,000	10.51	6,507
06-30-93	1,032	566	15,067	104,362,000	9.84	6,927
06-30-94	1,506	642	15,931	116,072,000	11.22	7,286
06-30-95	913	703	16,141	126,831,000	9.27	7,858
06-30-96	1,160	629	16,672	136,521,000	7.64	8,189
06-30-97	1,187	662	17,197	150,676,000	10.37	8,762
06-30-98	1,316	683	17,830	182,562,000	21.16	10,239
06-30-99	1,410	752	18,488	207,962,000	134.91	11,248
State Patrol l	Retirement Fund:					
06-30-89	22	22	455	7,187,000	14.75	15,796
06-30-90	32	22	465	7,846,000	9.17	16,873
06-30-91	36	14	487	8,720,000	11.14	17,906
06-30-92	27	17	497	9,603,000	10.13	19,322
06-30-93	31	17	511	10,253,000	6.77	20,065
06-30-94	27	9	529	11,271,000	9.93	21,306
06-30-95	20	9	540	12,092,000	7.28	22,393
06-30-96	36	16	560	13,279,000	9.82	23,712
06-30-97	28	18	570	14,642,000	10.26	25,688
06-30-98	62	12	620	18,353,000	25.34	29,602
06-30-99	68	16	672	22,226,000	21.10	33,074
Correctional	Employees' Retir	rement Fund:				
06-30-89	24	13	357	2,964,000	10.68	8,303
06-30-90	26	19	364	3,188,000	7.56	8,758
06-30-91	30	11	383	3,493,000	9.57	9,120
06-30-92	23	12	394	3,773,000	8.02	9,576
06-30-93	23	8	409	4,150,000	9.99	10,147
06-30-94	30	8	431	4,557,000	9.81	10,573
06-30-95	34	16	449	4,971,000	9.08	11,071
06-30-96	34	10	473	5,460,000	9.84	11,543
06-30-97	62	16	519	6,267,000	14.78	12,075
06-30-98	86	14	591	8,226,000	31.26	13,919
06-30-99	78	17	652	10,190,000	23.88	15,629



Schedule of Retirees and Beneficiaries (Fiscal year end totals)

Year Ended	Number Added	Number Removed	Annual Number	Benefits	Percent Increase In Annual Benefits	Average Annual Benefit
Judges' Retire	ement Fund:					
06-30-89	12	7	166	\$ 3,451,000	10.96%	\$20,789
06-30-90	22	10	178	3,846,000	11.45	21,607
06-30-91	11	7	182	4,183,000	8.76	22,984
06-30-92	11	7	186	4,592,000	9.78	24,688
06-30-93	19	5	200	5,144,000	12.02	25,720
06-30-94	19	12	207	5,773,000	12.22	27,889
06-30-95	16	8	215	6,233,000	7.97	28,991
06-30-96	10	9	216	6,760,000	8.45	31,296
06-30-97	19	8	227	7,560,000	11.83	33,304
06-30-98	21	11	237	9,082,000	20.13	38,321
06-30-99	12	11	238	9,996,000	10.06	42,000
Legislators' R	Retirement Fund:					
06-30-89	8	16	161	1,211,000	5.40	7,522
06-30-90	6	4	163	1,262,000	4.21	7,742
06-30-91	26	12	177	1,362,000	7.92	7,695
06-30-92	15	14	178	1,500,000	10.13	8,427
06-30-93	26	4	200	1,697,000	13.13	8,485
06-30-94	13	8	205	1,887,000	11.20	9,205
06-30-95	20	9	216	2,052,000	8.74	9,500
06-30-96	19	7	228	2,318,000	12.97	10,167
06-30-97	25	6	247	2,639,000	13.85	10,684
06-30-98	23	8	262	3,276,000	24.14	12,504
06-30-99	10	5	267	3,740,000	14.16	14,007
Elective State	e Officers' Retire	ment Fund:				
06-30-89	0	0	8	105,000	7.1	13,125
06-30-90	0	0	8	110,000	4.76	13,750
06-30-91	2	3	7	119,000	8.18	17,000
06-30-92	1	0	8	117,000	-1.68	14,625
06-30-93	2	0	10	143,000	22.22	14,300
06-30-94	1	0	11	161,000	12.59	14,636
06-30-95	0	0	11	164,000	1.86	14,909
06-30-96	2	1	12	155,000	-5.49	12,917
06-30-97	0	1	11	160,000	3.23	14,545
06-30-98	2	2	11	171,000	6.88	15,545
06-30-99	3	1	13	213,000	24.56	16,385



Solvency Test – Funding Ratio

Valuation Date	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Employer Financed Portion	(4) Reported Assets		Portion Covered be Ported A	-	Funding Ratio
	Aggregate	Accrued	Liabilities		(1)	(2)	(3)	
State Employ	yees' Retirement I	Fund:						
06-30-89	\$316,302	\$ 714,269	\$1,426,115	\$1,871,542	100%	100%	58.9%	76.2%
06-30-90	355,216	773,505	1,579,247	2,108,210	100	100	62.0	77.8
06-30-91	391,070	884,089	1,608,444	2,304,312	100	100	64.0	79.9
06-30-92	427,320	987,191	1,710,788	2,613,472	100	100	70.0	83.6
06-30-93	466,594	1,068,200	2,028,690	2,905,578	100	100	67.6	81.5
06-30-94	500,436	1,269,882	2,106,266	3,158,068	100	100	65.9	81.5
06-30-95	546,329	1,317,617	1,931,980	3,462,098	100	100	82.7	91.2
06-30-96	586,315	1,436,918	2,064,040	3,975,832	100	100	94.6	97.3
06-30-97	621,933	1,586,977	2,310,632	4,664,519	100	100	106.3	103.2
06-30-98	653,884	1,815,870	2,735,211	5,390,526	100	100	106.8	107.7
06-30-99	688,560	2,057,419	3,008,936	5,968,692	100	100	107.1	103.7
State Patrol	Retirement Fund:							
06-30-89	19,583	87,385	87,466	167,271	100	100	68.9	86.0
06-30-90	21,276	93,794	92,273	185,699	100	100	76.5	89.6
06-30-91	22,980	101,632	99,421	200,068	100	100	75.9	89.3
06-30-92	24,742	108,590	100,324	222,314	100	100	88.7	95.1
06-30-93	27,006	115,357	115,839	244,352	100	100	88.0	94.6
06-30-94	28,908	122,508	123,961	262,570	100	100	89.7	95.3
06-30-95	31,160	129,038	122,880	284,918	100	100	101.5	100.6
06-30-96	32,981	143,050	127,910	323,868	100	100	115.6	106.6
06-30-97	35,356	152,929	144,142	375,650	100	100	130.0	113.0
06-30-98	35,702	186,345	149,322	430,011	100	100	139.3	115.8
06-30-99	35,405	226,199	197,816	472,687	100	100	106.7	102.9
Correctional	Employees' Retire	ement Fund:						
06-30-89	12,053	28,492	52,139	85,441	100	100	86.1	92.2
06-30-90	13,452	31,241	57,524	96,945	100	100	90.8	94.8
06-30-91	14,975	33,768	63,428	105,926	100	100	90.2	94.4
06-30-92	16,729	36,728	70,058	121,051	100	100	96.5	98.0
06-30-93	18,537	40,027	75,716	135,939	100	100	102.2	101.2
06-30-94	20,451	44,186	88,065	148,163	100	100	94.8	97.0
06-30-95	22,825	48,776	81,890	165,427	100	100	114.6	107.8
06-30-96	25,440	54,942	90,577	193,833	100	100	125.3	113.4
06-30-97	30,347	63,680	118,611	241,916	100	100	124.7	113.8
06-30-98	34,827	79,770	147,272	295,291	100	100	122.7	112.8
06-30-99	39,503	99,324	185,111	335,408	100	100	106.2	103.5



Solvency Test – Funding Ratio

Valuation Date	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Employer Financed Portion	(4) Reported Assets		Portion Covered by eported Ass	ets	Funding Ratio
	Aggregate	Accrued	Liabilities		(1)	(2)	(3)	
Judges' Reti	rement Fund:							
06-30-89	\$ 4,477	\$32,564	\$27,813	\$23,352	100%	70.3%	0%	36.0%
06-30-90	4,683	36,120	28,593	28,116	100	64.9	0	40.5
06-30-91	5,125	38,105	33,368	33,559	100	74.6	0	43.8
06-30-92	5,711	42,769	35,489	37,768	100	84.9	0	45.0
06-30-93	6,558	48,706	35,245	44,156	100	77.2	0	48.8
06-30-94	7,460	53,203	37,650	50,428	100	80.8	0	51.3
06-30-95	8,369	57,245	36,624	56,813	100	84.6	0	55.6
06-30-96	9,535	60,477	38,138	64,851	100	91.5	0	60.0
06-30-97	10,070	69,908	37,736	74,680	100	92.4	0	63.4
06-30-98	10,865	79,076	40,786	86,578	100	95.7	0	73.9
06-30-99	12,390	85,400	41,797	97,692	100	99.9	0	69.9
Legislators' l	Retirement Fund:							
06-30-89	3,622	12,410	12,789	12,317	100	70.0	0	42.7
06-30-90	4,117	12,661	14,544	12,748	100	68.2	0	40.7
06-30-91	4,462	11,999	13,942	14,694	100	85.2	0	48.3
06-30-92	4,975	12,556	15693	15,160	100	81.1	0	45.6
06-30-93	5,123	15,153	16,525	17,168	100	79.5	0	46.7
06-30-94	5,620	19,092	20,736	18,738	100	68.7	0	41.2
06-30-95	5,833	21,539	22,883	21,213	100	71.4	0	42.2
06-30-96	6,205	23,843	24,177	22,532	100	62.9	0	41.6
06-30-97	6,378	29,423	24,254	25,678	100	65.6	0	42.8
06-30-98	6,655	33,435	22,838	31,212	100	73.4	0	49.6
06-30-99	6,956	36,231	23,231	33,474	100	73.2	0	50.4
Elective Stat	e Officers' Retire	ement Fund:						
06-30-89	313	710	1,078	315	100.0	0	0	15.0
06-30-90	349	709	1,213	351	100.0	0	0	15.5
06-30-91	306	952	991	308	100.0	0	0	13.7
06-30-92	334	982	1,064	334	100.0	0	0	14.0
06-30-93	322	1,373	994	332	100.0	0	0	12.0
06-30-94	359	1,212	1,277	361	100.0	0	0	12.7
06-30-95	379	1,384	1185	378	99.7	0	0	12.8
06-30-96	414	1,312	1,257	412	99.5	0	0	13.8
06-30-97	455	1,368	1,391	456	99.8	0	0	14.2
06-30-98	497	1,374	1,498	500	99.4	0	0	14.8
06-30-99	194	2,836	343	198	98.0	0	0	6.2

Summary of Unfunded Accrued Liability (UAL)

Valuation Date	Aggregate Accrued Liabilities	Reported Assets	Unfunded Accrued Liability	Member Payroll	UAL as a Percent Payroll
State Employ	ees Retirement Fund:				
06-30-89	\$2,456,686	\$1,871,542	\$585,144	\$1,418,160	41.3%
06-30-90	2,707,968	2,108,210	599,758	1,513,522	39.6
06-30-91	2,883,603	2,304,312	579,291	1,612,238	35.9
06-30-92	3,125,299	2,613,472	511,827	1,658,792	30.9
06-30-93	3,563,492	2,905,578	657,914	1,694,520	38.8
06-30-94	3,876,584	3,158,068	718,516	1,789,033	40.2
06-30-95	3,795,926	3,462,098	333,828	1,611,687	20.7
06-30-96	4,087,273	3,975,832	111,441	1,643,419	6.8
06-30-97	4,519,542	4,664,519	(144,977)	1,612,662	9.0
06-30-98	5,005,165	5,390,526	(385,361)	1,664,588	23.2
06-30-99	5,464,207	5,968,692	(504,489)	1,757,716	28.7
State Patrol I	Retirement Fund:				
06-30-89	194,434	167,271	27,163	32,591	83.3
06-30-90	207,343	185,699	21,644	34,423	62.9
06-30-91	224,033	200,068	23,965	37,777	63.4
06-30-92	233,656	222,314	11,342	37,113	30.6
06-30-93	258,202	244,352	13,850	40,654	34.1
06-30-94	275,377	262,570	12,807	41,462	30.9
06-30-95	283,078	284,918	(1,840)	39,838	4.6
06-30-96	303,941	323,868	(19,927)	40,399	49.3
06-30-97	332,427	375,650	(43,223)	43,084	100.3
06-30-98	371,369	430,011	(58,642)	45,217	129.7
06-30-99	406,215	472,687	(66,472)	47,034	141.3
Correctional	Employees' Retirement Fo	und:			
06-30-89	92,684	85,441	7,243	41,976	17.3
06-30-90	102,217	96,945	5,272	47,075	11.2
06-30-91	112,171	105,926	6,245	50,821	12.3
06-30-92	123,515	121,051	2,404	56,044	4.4
06-30-93	134,280	135,939	(1,658)	60,330	3.4
06-30-94	152,702	148,163	4,539	70,562	6.4
06-30-95	153,491	165,427	(11,436)	71,022	16.8
06-30-96	170,959	193,833	(22,874)	78,030	29.3
06-30-97	212,638	241,916	(29,278)	91,847	31.9
06-30-98	261,869	295,291	(33,422)	106,178	31.5
06-30-99	307,408	335,408	(28,000)	112,202	25.0



Summary of Unfunded Accrued Liability (UAL)

			Unfunded		UAL as a
Valuation	Aggregate	Reported	Accrued		Percent
Date	Accrued Liabilities	Assets	Liability	Member Payroll	Payroll
Judges' Retireme	ent Fund:				
06-30-89	\$64,854	\$23,352	\$41,502	\$18,759	221.2%
06-30-90	69,396	28,116	41,280	20,662	199.8
06-30-91	76,598	33,559	43,039	21,570	199.5
06-30-92	83,969	37,768	46,201	22,181	208.3
06-30-93	90,509	44,156	46,353	22,469	206.3
06-30-94	98,313	50,428	47,885	22,302	214.7
06-30-95	102,238	56,813	45,425	23,429	193.9
06-30-96	108,150	64,851	43,299	24,287	178.3
06-30-97	117,714	74,680	43,034	24,420	176.2
06-30-98	130,727	86,578	44,149	25,890	170.5
06-30-99	139,587	97,692	41,895	27,080	154.7
Legislators' Reti	rement Fund:				
06-30-89	28,821	12,317	16,504	5,179	318.7
06-30-90	31,322	12,748	18,574	5,465	339.9
06-30-91	30,403	14,694	15,709	6,589	238.4
06-30-92	33,224	15,160	18,064	6,753	267.5
06-30-93	36,801	17,168	19,633	6,891	284.9
06-30-94	45,448	18,738	26,710	6,916	386.2
06-30-95	50,255	21,213	29,042	7,193	403.8
06-30-96	54,225	22,532	31,693	7,423	427.0
06-30-97	60,055	25,678	34,377	7,626	450.8
06-30-98	62,928	31,212	31,716	7,289	435.1
06-30-99	66,418	33,474	32,944	6,571	501.4
Elective State O	fficers' Fund: *				
06-30-89	2,101	315	1,786	406	439.9
06-30-90	2,271	351	1,920	428	448.6
06-30-91	2,249	308	1,941	440	441.1
06-30-92	2,380	334	2,046	451	453.7
06-30-93	2,689	322	2,367	462	512.3
06-30-94	2,848	361	2,467	462	534.0
06-30-95	2,948	378	2,570	452	571.1
06-30-96	2,983	412	2,571	475	541.3
06-30-97	3,214	456	2,758	483	571.0
06-30-98	3,369	500	2,869	500	573.8
06-30-99	3,373	198	3,175	0	N/A

^{*} No active members are in this fund.



Sample Annual Rates of Termination per 10,000 Members

Age	D	eath	Witho	drawal	Disa	bility	Retir	ement *
	Male	Female	Male	Female	Male	Female	Male	Female
State Employ	vees' Retiren	nent Fund:						
20	3	2	2,400	3,700	0	0	0	0
25	4	2	1,600	2,910	0	0	0	0
30	5	3	1,040	2,120	2	0	0	0
35	6	4	720	1,410	2	1	0	0
40	9	6	530	920	2	2	0	0
45	14	8	410	630	35	0	0	0
50	25	14	320	470	14	10	0	0
55	43	21	210	330	34	24	0	0
60	66	34	0	0	76	62	150	150
65	101	58	0	0	0	0	10,000	10,000
70	176	97	0	0	0	0	0	0
State Patrol F	Retirement I	Fund:						
20	5	4	300	300	4	4	0	0
25	6	5	250	250	6	6	0	0
30	8	5	200	200	8	8	0	0
35	11	7	150	150	11	11	0	0
40	16	9	100	100	18	18	0	0
45	29	13	50	50	29	29	0	0
50	53	20	200	200	50	50	0	0
55	85	38	0	0	88	88	0	0
60	131	65	0	0	141	141	0	0
65	213	100	0	0	0	0	0	0
70	361	159	0	0	0	0	0	0
Correctional	Employees'	Retirement I	Fund:					
20	5	4	2,400	3,700	0	0	0	0
25	6	5	1,600	2,910	0	0	0	0
30	8	5	1,040	2,120	2	0	0	0
35	11	7	720	1,410	2	1	0	0
40	16	9	530	920	2	2	0	0
45	29	13	410	630	3	5	0	0
50	53	20	320	470	14	10	0	0
55	85	38	210	330	34	24	0	0
60	131	65	0	0	76	62	0	0
65	213	100	0	0	0	0	0	0
70	361	159	0	0	0	0	0	0

^{*} For the State Patrol and the Correctional Employees' Retirement funds, the retirement rates for male and female are 10,000 at age 58.

Sample Annual Rates of Termination per 10,000 Members

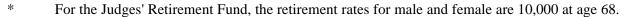
Age	De	eath	Witl	hdrawal	Γ	Disability	Re	tirement *
	Male	Female	Male	Female	Male	Female	Male	Female
Judges' Retir	ement Fun	id:						
20	5	4	0	0	0	0	0	0
25	6	5	0	0	0	0	0	0
30	8	5	0	0	2	0	0	0
35	1	7	0	0	2	1	0	0
40	16	9	0	0	2	2	0	0
45	29	13	0	0	3	5	0	0
50	53	20	0	0	14	10	0	0
55	85	38	0	0	34	24	0	0
60	131	65	0	0	76	62	0	0
65	213	100	0	0	0	0	0	0
70	361	159	0	0	0	0	0	0

Legislators' Retirement Fund: (termination rates by years of service) **

Year	House	Senate
1	0	0
2	30	0
3	0	0
4	20	25
5 6	0	0
6	10	0
7	0	0
8	5	10

Elective State Officers' Retirement Fund: (termination rates by years of service) ***

Year	Rate
1	0 %
2	0
3	0
4	50
5	0
6	0
7	0
8	50



^{**} For the Legislators' Retirement Fund, the retirement rate is 100 percent at age 62.



^{***} For the Elective Officers' Retirement Fund, the retirement rate is 100 percent at age 62.



 $Split\,Rock\,Lighthouse, North\,Shore, Minnesota.$



Statistical Section

Revenues by Sources

(In	Thousands
T	Inqudited

			Unaudited				
Year Ended June 30,	Employee Contributions	Employer Contributions	Investment Income	Other	Total	Covered Payroll	Percentage Employer Contributions
State Emp	loyees' Retireme	ent Fund:					
1991	\$56,895	\$57,986	\$182,747	\$ 4	\$297,632	\$1,370,964	4.23%
1992	58,478	59,244	297,879	8	415,609	1,409,108	4.20
1993	59,130	58,980	269,405	3	387,518	1,482,005	3.98
1994	62,555	60,742	305,850	13	429,160	1,536,978	3.95
1995	61,627	63,161	269,588	2	394,378	1,514,177	4.17
1996	63,507	65,556	517,346	40	646,449	1,560,369	4.20
1997	63,848	66,568	936,759	2,455	1,069,630	1,568,747	4.24
1998	62,901	62,315	1,110,022	3,500	1,238,738	1,557,880	4.00
1999	66,823	65,979	716,178	5,407	854,387	1,649,469	4.00
State Patro	ol Retirement Fu	nd:					
1991	2,751	4,825	16,013	0	23,589	32,365	14.91
1992	2,795	4,893	24,569	0	32,257	32,882	14.88
1993	3,040	5,288	22,595	0	30,923	35,865	14.74
1994	3,004	5,160	25,102	0	33,266	35,341	14.60
1995	3,189	5,583	22,815	0	31,587	37,518	14.88
1996	3,484	5,742	42,458	0	51,684	41,476	13.84
1997	3,746	6,151	75,700	0	85,597	41,996	14.65
1998	3,634	5,475	90,117	0	99,226	43,546	12.60
1999	3,850	5,712	60,922	17	70,501	45,333	12.60
Correction	nal Employees' R	Retirement Fund:					
1991	2,128	2,731	8,035	0	12,894	43,429	6.29
1992	2,332	2,955	14,121	0	19,408	47,592	6.21
1993	2,554	3,217	12,680	0	18,451	52,122	6.17
1994	2,679	3,355	13,767	0	19,801	54,673	6.14
1995	3,280	4,196	12,729	0	20,205	66,939	6.27
1996	3,575	4,559	25,429	0	33,563	72,959	6.25
1997	5,508	9,129	46,321	3,715	64,673	102,408	8.12
1998	5,954	8,146	58,451	6,375	78,926	105,796	7.70
1999	6,378	8,172	39,182	2,518	56,250	106,131	7.90

Revenues by Sources

(In	Thousands
I	Inaudited

Year Ended June 30,	Employee Contributions	Employer Contributions	Investment Income	Other	Total	Covered Payroll	Percentage Employer Contributions
Indeed Dat	ino mont Fron do						
Juages Ret	irement Fund:						
1991	\$799	\$5,900	\$2,927	\$ 20	\$ 9,646	\$18,410	32.05%
1992	988	4,722	3,407	11	9,128	22,765	20.74
1993	1,409	4,844	3,853	1,444	11,550	22,084	21.93
1994	1,416	4,912	4,527	1,467	12,322	22,264	22.06
1995	1,455	5,161	4,305	1,469	12,390	22,877	22.56
1996	1,427	4,972	6,831	1,483	14,713	22,421	22.18
1997	1,457	5,094	16,057	1,548	24,156	22,909	22.24
1998	1,571	5,446	18,410	1,693	27,120	24,965	21.81
1999	2,069	5,301	12,302	1,761	21,433	32,940	16.09
Legislators	'Retirement Fun	d:					
1991	637	0	882	1,889	3,408	7,078	N/A
1992	590	0	872	601	2,063	6,556	N/A
1993	659	0	974	2,283	3,916	7,322	N/A
1994	593	0	1,278	1,618	3,489	6,589	N/A
1995	635	0	1,163	2,939	4,737	7,056	N/A
1996	563	0	1,611	1,511	3,685	6,267	N/A
1997	699	0	4,347	3,176	8,222	7,767	N/A
1998	612	0	5,635	5,199	11,446	6,802	N/A
1999	674	0	3,245	2,091	6,010	7,490	N/A
Elective Sta	ate Officers' Reti	irement Fund:					
1991	38	0	0	40	78	422	N/A
1992	34	0	0	111	145	378	N/A
1993	45	0	0	88	133	500	N/A
1994	37	0	0	164	201	411	N/A
1995	37	0	0	165	202	422	N/A
1996	41	0	0	151	192	456	N/A
1997	42	0	0	167	209	467	N/A
1998	42	0	0	175	217	461	N/A
1999	26	0	0	40	66	291	N/A



Expenses by Type

(In Thousands) Unaudited

Year Ended June 30,	Benefits	Administrative Expenses	Refunds	Other	Total
State Employe	ees' Retirement Fur	nd:			
1991	85,977	1,531	7,912	3,199	98,619
1992	95,010	1,590	7,886	3,132	107,618
1993	104,361	1,786	8,116	3,339	117,602
1994	116,072	1,978	7,644	4,048	129,742
1995	126,831	1,908	8,350	3,452	140,541
1996	136,521	1,972	10,260	4,074	152,827
1997	150,676	2,172	14,649	5,160	172,657
1998	182,562	2,365	11,659	7,932	204,518
1999	207,962	2,555	11,110	3,797	225,424
State Patrol R	etirement Fund:				
1991	8,720	79	18	236	9,053
1992	9,603	84	104	205	9,996
1993	10,253	61	37	262	10,613
1994	11,271	66	11	300	11,648
1995	12,092	55	129	580	12,856
1996	13,279	57	9	428	13,773
1997	14,642	62	30	146	14,880
1998	18,354	66	23	334	18,777
1999	22,226	74	16	310	22,626
Correctional F	Employees'Retirem	nent Fund:			
1991	3,493	113	200	125	3,931
1992	3,773	129	255	156	4,313
1993	4,150	87	296	177	4,710
1994	4,557	100	285	221	5,163
1995	4,971	105	291	255	5,622
1996	5,460	112	305	306	6,183
1997	6,267	140	368	140	6,915
1998	8,226	154	378	282	9,040
1999	10,190	163	425	225	11,003

Expenses by Type

(In Thousands) Unaudited

Year Ended June 30,	Benefits	Administrative Expenses	Refunds	Other	Total
Judges'Retiremen	t Fund:				
1991	4,183	62	30	17	4,292
1992	4,593	59	0	20	4,672
1993	5,144	37	0	33	5,214
1994	5,773	27	34	40	5,874
1995	6,233	28	0	49	6,310
1996	6,760	32	0	41	6,833
1997	7,560	33	0	39	7,632
1998	9,082	34	0	51	9.167
1999	9,996	38	375	28	10,437
Legislators' Retire	ment Fund:				
1991	1,362	42	47	11	1,462
1992	1,500	40	48	9	1,597
1993	1,697	24	178	9	1,908
1994	1,887	24	0	8	1,919
1995	2,052	26	158	27	2,263
1996	2,318	25	6	17	2,366
1997	2,639	30	119	20	2,808
1998	3,276	29	108	41	3,454
1999	3,740	32	49	387	4,208
Elective State Offi	cers' Retirement F	Fund:			
1991	119	2	0	0	121
1992	117	2	0	0	119
1993	143	2	0	0	145
1994	161	1	0	0	162
1995	164	1	20	0	185
1996	155	3	0	0	158
1997	160	5	0	0	165
1998	171	3	0	0	174
1999	213	6	86	63	368



Investment Results Compared to Selected Performance Standards

			F	Annualized				
		1995	1996	1997	1998	1999	Three Year	Five Year
Comb	inedFunds:							
-	Rate of return (time weighted	.)						
-	Total fund	16.3%	18.1%	21.4%	20.9%	11.7%	17.9%	17.6%
- 12.9	Composite index *	16.9	17.4	20.0	19.0	12.9	17.3	17.2
-	Combined Funds Percentile (rank in TUCS) **	48th	34th	28th	14th	37th	27th	34th
-	Inflation	3.0	2.8	2.3	1.7	2.0	2.0	2.4

^{*} As of June 30, 1999, the composite was weighted at 50.5 percent on the Wilshire 5000, 27.2 percent on the Lehman Aggregate, 15.0 percent on the Custom International, 2.0 percent on the Wilshire Real Estate, 2.9 percent on Venture Capital, 0.4 percent on resource funds, and 2.0 percent on 91-day treasury bills. This composite is adjusted to reflect various investment restrictions.

Investment Allocation

MSRS

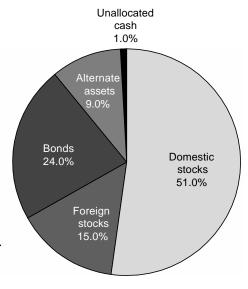
Asset Mix Target Basic Funds: Domestic stocks 51.0% 45.0% Foreign stocks 15.0 15.0 **Bonds** 24.0 24.0 *** Alternate assets 9.0 15.0 Unallocated cash 1.0 1.0 Total 100.0% 100.0%

*** Alternate assets are invested in bonds until they are deployed.

Actual

Policy

Actual Asset Mix



^{**} This is the Wilshire Associates Trust Universe Comparison Service Combined Funds compared to public and corporate plans greater than \$1 billion, gross of fees.

Active Employees' Average Age Tables (These statistics are unavailable for the Legislators' Plan.)

P	Average	s for New	Members	S			Averag	es for All	Members			
Year Ended		Entry Age	<u>e</u>		Entry A	<u>je</u>	<u>At</u>	tained Age	<u>e</u>	<u>Serv</u>	vice Credit	
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
State Employ	voog! D	atiraman	t Fund:									
06-30-90	33.9	33.3	33.5	30.7	31.0	30.9	42.4	39.6	40.9	11.4	8.1	9.6
06-30-90	32.9	32.1	32.5	30.7	31.0	30.9	42.4	40.0	41.2	11.4	8.5	9.9
06-30-91	33.2	32.5	32.8	30.7	30.8	30.9	42.9	40.6	41.6	11.7	9.0	10.2
06-30-92	33.0	32.3	32.6	30.7	30.8	30.8	43.2	41.0	42.0	12.0	9.0 9.4	10.2
06-30-93	33.9	32.5	33.1	30.7	30.7	30.8	43.4	41.0	42.0	12.0	9. 4 9.7	10.8
06-30-94	33.4	32.8	33.0	30.8	30.7	30.8	43.4	41.6	42.1	12.1	9.7	11.0
06-30-95			32.9	30.8	30.7	30.8	44.2	42.0	43.0	12.4		11.0
	33.2	32.7									10.2	
06-30-97	33.7	32.7	33.2	30.9	30.8	30.8	44.6	42.6	43.6	12.9	10.5	11.6
06-30-98	34.6	33.8	34.2	31.0	30.8	30.9	45.0	42.9	43.9	13.1	10.6	11.8
06-30-99	34.7	33.7	34.1	31.2	30.9	31.0	45.1	43.4	42.2	12.9	10.6	11.7
State Patrol	Retiren	nent Fun	d:									
06-30-90	29.9	30.7	29.9	27.0	25.5	26.9	40.9	34.4	40.6	14.0	8.9	13.8
06-30-91	30.6	31.0	30.6	27.1	26.5	27.1	40.9	35.0	40.7	13.9	8.4	13.6
06-30-92	-	-	-	27.1	26.6	27.1	41.3	35.9	41.1	14.3	9.2	14.0
06-30-93	-	-	-	27.1	26.3	27.0	42.1	36.6	41.8	15.0	10.2	14.8
06-30-94	29.2	27.1	28.5	27.1	26.5	27.1	42.5	35.1	41.9	15.3	8.5	14.9
06-30-95	31.9	28.1	30.5	27.2	27.1	27.2	42.8	35.2	42.3	15.6	8.0	15.0
06-30-96	33.8	26.1	32.9	27.2	27.0	27.2	43.3	35.8	42.8	16.0	8.7	15.5
06-30-97	29.8	26.2	29.6	27.3	27.0	27.3	43.3	36.9	42.8	15.9	9.8	15.4
06-30-98	30.8	31.7	30.9	27.5	27.5	27.5	42.6	36.9	42.1	15.0	9.3	14.6
06-30-99	29.9	31.1	30.0	27.7	27.7	27.2	41.3	36.9	40.9	13.5	9.1	13.1
Correctional	Emplo	vees' Re	tirement	Fund:								
06-30-90	30.5	31.1	30.7	29.2	30.3	29.4	38.0	35.4	37.5	8.7	5.0	8.1
06-30-91	31.1	32.2	31.5	29.3	30.6	29.5	38.2	35.7	37.7	8.8	5.0	8.1
06-30-92	31.0	31.0	29.5	29.5	31.5	31.2	38.1	36.5	38.1	8.1	5.0	8.1
06-30-93	31.5	33.6	32.2	29.6	31.9	30.1	38.8	37.0	38.5	9.1	5.1	8.3
06-30-94	31.4	32.5	31.8	29.7	32.0	30.2	39.0	36.9	38.5	9.1	4.7	8.1
06-30-95	31.7	32.2	31.9	30.1	32.2	30.6	38.5	36.5	38.0	8.2	4.1	7.2
06-30-96	34.6	32.3	33.7	30.5		31.0		36.7	38.4	8.3	4.2	7.3
06-30-97	38.4	39.0	38.7	30.9	33.4	31.6	39.8	38.3	39.3	8.3	4.4	7.2
06-30-98	36.2	40.1	38.3	30.9	34.6	32.1	40.2		40.0	8.8	4.7	7.5
06-30-99	33.4	33.6	33.5	30.7		31.8		39.9	40.6	9.1	5.4	7.9
		22.0	0010	2017	00.5	01.0	.0.5	0,1,5		,,,		,,,
Judges' Retir	rement	Fund:										
06-30-90	43.8	43.0	43.6	41.9	43.0	42.0	53.4	49.1	52.8	11.3	6.0	10.7
06-30-91	46.7	41.2	45.6	42.1	42.8	42.2	53.5	49.2	52.9	11.2	6.4	10.6
06-30-92	47.6	54.2	48.9	43.4	42.3	42.5		50.4	53.3	11.4	7.0	10.7
06-30-93	44.5	42.9	44.1	42.4	43.4	42.5	53.5		53.1	11.1	7.5	10.5
06-30-94	43.6	40.0	41.7	42.3	42.5	43.3		50.1	53.0	11.4	7.6	10.7
06-30-95	47.9	36.9	45.0	42.6	42.0	42.5	53.8	49.7	53.0	11.2	7.7	10.5
06-30-96	49.4	46.7	48.4	42.8	42.6	42.8	54.2	50.6	53.5	11.4	8.0	10.7
06-30-97	52.2	51.1	51.7	42.8	42.3	42.6	54.5	50.2	53.6	11.1	8.0	10.4
06-30-98	48.1	41.4	47.0	42.9	42.0	42.7	54.5	50.8	53.6	11.1	8.5	10.5
06-30-99	47.3	43.5	46.2	43.2	41.7	42.9	54.8	50.3	53.8	11.0	8.4	10.4



Employees Eligible to an Immediate Annuity (as of June 30, 1999)

	Total
State Employees' Retirement Fund:	
 full benefit reduced benefit due to early retirement proportional benefit (age equal to or more than 65 and service years fewer than 10) Rule of 90 vested employees not eligible to immediate benefit employees not vested 	383 4,727 317 946 28,970 11,815
Totals	47,158
State Patrol Retirement Fund: - full benefit - reduced benefit - vested employees not eligible to immediate benefit - employees not vested Totals	22 134 486 183 825
Correctional Employees' Retirement Fund: - full benefit - reduced benefit - vested employees not eligible to immediate benefit - employees not vested	85 308 1,730 759
Totals	2,882
Judges' Retirement Fund: - full benefit - reduced benefit - vested judges not eligible to immediate benefit - judges not vested	11 12 147 112
Totals	282
Legislators' Retirement Fund: - full benefit - vested members not eligible for an immediate benefit - members not vested	26 105 49
Totals	180
Elective State Officers' Retirement Fund: no remaining active members as of June 30, 1999	0



Refund Statistics (These statistics are not available for the Legislators' Plan.)

V 5 1 1					•		erage	Number Forfeiting
Year Ended		mber of Refu			ge Age		Forfeited	Vested Rights
	Male	Female	Total	Male	Female	Male	Female	
State Employee	es' Retireme	ent Fund:						
06-30-90	1,227	2,491	3,718	34.9	33.6	2.9	2.7	1,085
06-30-91	1,271	2,415	3,686	33.9	34.8	2.6	2.6	934
06-30-92	1,019	1,954	2,973	34.6	34.5	3.1	2.9	920
06-30-93	989	1,662	2,651	35.2	34.7	3.5	3.1	819
06-30-94	941	1,608	2,549	34.7	34.6	3.0	3.4	766
06-30-95	962	1,475	2,443	35.4	35.2	3.4	3.4	789
06-30-96	1,087	1,677	2,764	35.9	35.3	3.4	3.4	891
06-30-97	1,281	2,143	3,424	36.4	35.9	3.4	3.7	1,190
06-30-98	998	1,732	2,730	36.4	36.2	3.6	3.3	895
06-30-99	947	1,509	2,456	36.2	37.0	2.2	2.5	623
00 30 77	741	1,507	2,430	30.2	37.0	2.2	2.3	023
State Patrol Re	tirement Fu	and:						
06-30-90	2	0	2	33.0	-	5.6	-	2
06-30-91	3	0	3	37.0	-	2.8	-	1
06-30-92	4	0	4	39.5	-	8.7	-	2
06-30-93	1	0	1	35.5	-	11.1	_	1
06-30-94	1	0	1	36.2	-	4.6	_	1
06-30-95	3	0	3	36.0	-	11.1	-	3
06-30-96	3	1	4	51.6	33.1	1.7	0.8	0
06-30-97	2	1	3	46.2	34.0	3.1	0.1	1
06-30-98	1	0	1	30.0	-	5.9	_	1
06-30-99	0	0	0	-	-	-	-	0
Correctional En	nplovees' R	Retirement	Fund:					
06-30-90	38	21	59	34.6	33.6	4.2	2.0	28
06-30-91	34	12	46	33.3	30.0	3.8	3.0	20
06-30-92	39	12	51	32.1	33.9	4.2	2.4	28
06-30-93	30	19	49	36.1	34.3	5.2	2.4	22
06-30-94	35	16	51	34.0	34.6	3.5	5.3	24
06-30-95	43	17	60	32.2	31.5	3.4	1.8	20
06-30-96	41	40	81	33.6	34.0	2.8	2.2	17
06-30-97	54	22	76	34.0	33.3	3.1	2.6	18
06-30-98	52	33	85	34.6	31.0	3.4	1.8	27
06-30-99	45	49	94	34.1	36.1	2.6	1.6	24
Judges' Retirem	nent Fund							
06-30-90	0	0	0	_	_	_	_	0
06-30-91	5	0	5	40.8	_	3.3	_	2
06-30-92	0	0	0	-	_	-	_	0
06-30-93	0	0	0	_	_	_	_	0
06-30-94	1	0	1	46.4	_	12.7	_	1
06-30-95	0	0	0	-	_	-	_	0
06-30-96	0	0	0	_	_	_	_	0
06-30-97	1	0	1	48.0	_	0.1	0	0
06-30-98	1	0	1	62.6	_	2.7	0	0
06-30-99	0	0	0	-	_	2. /	-	0
00 00 77	U	U	U	_		_		J



Schedule of Retired Members by Type of Benefit State Employees' Retirement Fund

Monthly Benefit	Number of									
Amount	Retirees		Ret	irement	Туре			Option S	Selected	
		1	2	3	4	5	Life	1	II	Ш
\$ 0 - \$ 249	2,791	2,390	128	245	0	28	1,919	773	66	38
250 - 499	3,390	2,671	240	446	0	33	2,231	1,008	115	36
500 - 749	2,932	2,355	241	315	1	20	1,919	898	98	17
750 - 999	2,345	1,902	187	244	0	12	1,471	807	57	10
1,000 - 1,249	1,809	1,531	102	168	0	8	1,031	727	38	13
1,250 - 1,499	1,346	1,162	58	122	2	2	737	583	19	7
1,500 - 1,749	1,076	966	25	80	0	5	551	499	15	11
1,750 - 1,999	727	646	11	64	0	6	342	372	8	5
2,000 - 2,249	585	544	4	34	1	2	245	328	6	6
2,250 - 2,499	464	422	6	35	0	1	182	275	5	2
2,500 - 2,749	336	318	1	14	1	2	142	189	2	3
2,750 - 2,999	233	214	0	18	0	1	94	129	4	6
3,000 or more	455	428	2	19	_2	4	161	290	3	1
Totals	18,489	15,549	1,005	1,804	7	124	11,025	6,878	436	150

Type:		Option:	
1	General Plan annuitants	Life	Single Life annuity
2	General Plan disabilitants	1	Joint and Survivor
3	General Plan survivors	II	Death while eligible
4	Military Affairs Plan	III	Period Certain
5	Unclassified Plan		



Schedule of Retired Members by Type of Benefit State Patrol Retirement Fund

Monthly Benefit	Number of						
Amount	Retirees	Re	etirement	Ор	Option Selected		
		1	2	3	Life	1	II
\$ 0-\$ 249	10	2	0	8	1	1	8
250 - 499	8	1	0	7	2	1	5
500 - 749	12	5	1	6	3	4	5
750 - 999	18	6	0	12	7	8	3
1,000 - 1,249	34	5	1	28	8	22	4
1,250 - 1,499	28	9	2	17	8	20	0
1,500 - 1,749	19	4	0	15	2	13	4
1,750 - 1,999	33	17	2	14	9	23	1
2,000 - 2,249	31	20	2	9	11	18	2
2,250 - 2,499	35	27	3	5	18	15	2
2,500 - 2,749	39	28	3	8	10	25	4
2,750 - 2,999	59	54	2	3	15	44	0
3,000 or more	<u>346</u>	325	_7		<u>186</u>	<u>156</u>	_4
Totals	672	503	23	146	280	350	42

Type:		
1	Retired	members

2 Disabilitants3 Survivors

Option:

Life Single Life annuity
I Joint and Survivor
Death while eligible

Schedule of Retired Members by Type of Benefit Correctional Employees' Retirement Fund

Monthly	Number								
Benefit	of								
Amount	Retirees	Retirement Type				Option Selection			
		1	2	3	Life	I	II	III	
\$ 0-\$ 249	31	22	0	9	18	8	4	1	
250 - 499	62	52	3	7	39	19	4	0	
500 - 749	60	48	0	12	37	17	5	1	
750 - 999	86	71	5	10	52	33	1	0	
1,000 - 1,249	92	70	17	5	67	21	4	0	
1,250 - 1,499	68	55	11	2	46	21	0	1	
1,500 - 1,749	64	52	11	1	39	24	1	0	
1,750 - 1,999	43	32	11	0	26	17	0	0	
2,000 - 2,249	44	42	1	1	30	13	1	0	
2,250 - 2,499	26	24	1	1	12	14	0	0	
2,500 - 2,749	26	26	0	0	16	10	0	0	
2,750 - 2,999	20	20	0	0	9	11	0	0	
3,000 or more	30	28	0	2	20	10	0	0	
			_	_			_	_	
Totals	652	542	60	50	411	218	20	3	

Type:

1 Retired members2 Disabilitants3 Survivors

Option:

Life Single Life annuity
I Joint and Survivor
Period Certain
Death while eligible



Schedule of Retired Members by Type of Benefit **Judges' Retirement Fund**

Monthly Benefit	Number of							
Amount	Retirees	Ret	irement	Туре		Option	n Selected	t
		1	2	3	Life	I	II	Ш
\$ 0-\$ 249	0	0	0	0	0	0	0	0
250 - 499	0	0	0	0	0	0	0	0
500 - 749	6	1	0	5	4	0	2	0
750 - 999	5	2	0	3	3	1	0	1
1,000 - 1,249	7	3	0	4	5	1	1	0
1,250 - 1,499	5	3	0	2	4	1	0	0
1,500 - 1,749	9	2	0	7	5	3	0	1
1,750 - 1,999	8	4	0	4	5	3	0	0
2,000 - 2,249	10	3	0	7	3	5	2	0
2,250 - 2,499	17	5	0	12	12	3	2	0
2,500 - 2,749	16	5	0	11	5	5	6	0
2,750 - 2,999	12	6	0	6	4	7	1	0
3,000 or more	143	115	6	22	45	68	24	6
			_		_			_
Totals	238	149	6	83	95	97	38	8

Type: 1 Retired members 2 Disabilitants 3 Survivors

Option:

Single Life annuity Life Joint and Survivor

Life plus 50 percent survivors

Period Certain Ш



Schedule of Retired Members by Type of Benefit Legislators' and Elective State Officers' Retirement Funds

Monthly Benefit Amount	Elective Sta	ate Officers'	Retirement Type	Legisla	ators'
	Member	Survivor		Member	Survivor
\$ 0-\$ 249	1	0		4	13
250 - 499	2	1		19	16
500 - 749	0	1		25	15
750 - 999	1	0		36	11
1,000 - 1,249	0	0		29	6
1,250 - 1,499	0	1		18	4
1,500 - 1,749	0	0		11	3
1,750 - 1,999	0	0		12	0
2,000 - 2,249	1	0		6	0
2,250 - 2,499	0	1		10	0
2,500 - 2,749	0	0		8	1
2,750 - 2,999	0	1		5	2
3,000 or more	3	0		13	0
	_	_			_
Totals	8	5		196	71

Unclassified Employees' Retirement Plan

On June 30, 1999, there were 1,678 active participants, and 1,408 inactive participants for a total of 3,086.

		Share V	alue	Rate of R	eturn
		June 30, 1998	June 30, 1999	Fiscal Year 1999	Five Year Average
Invest	ment performance:				
-	Income shares	\$24.70	\$27.95	13.46%	18.52%
-	Growth shares	20.87	24.39	17.17	24.88
-	Common stock index	15.07	17.98	19.61	25.50
-	Bond market	7.05	7.21	2.57	8.05
-	International shares	3.37	3.67	9.20	9.00 *

			Average Interest Rate	
		Fiscal Year 1999	Fiscal Year 1999	Five Year Average
Acc	counts:			
-	Money market	5.35%	5.23%	5.48%
-	Fixed interest	5.88	6.20	6.38 **

	C	urrent Investments for June 1999		Total Inves	Total Investments as of June 30, 1999		
Investn	nent distribution:	Percent of Participants	Percent of Dollars	Percent of Participants	Percent of Dollars	Average Invested	
-	Income shares	72.5	48.0	89.7	48.2	44,785	
-	Growth shares	46.1	19.7	51.2	21.9	35,695	
-	Money market	9.0	4.4	16.6	4.5	22,498	
-	Bond market	14.7	6.3	19.4	2.6	11,168	
-	Common stock index	36.2	14.9	38.0	16.1	35,398	
-	Fixed interest	8.8	3.0	14.3	4.3	24,861	
-	International	17.2	3.8	21.5	2.4	9,439	



Participant lump-sum	withdrawals:	Fiscal Year 1999 Num	ber Average Dollar
- from active sta	atus	113	52,238
- survivor refun	d	0	-
- annuitants as o	of June 30, 1999	115	\$828/month
 disabilitants 		2	897/month
- survivors		7	307/month



Five year average since Sept. 1, 1994.

Five year average since Nov. 1, 1994.

Deferred Compensation Plan Statistics

The Minnesota State Deferred Compensation Plan is comprised of three separate investment product providers. Each provider offers various investment options to its eligible members.

Member Statistics by Provider

	Minnesota Supplemental Investment Fund	Minnesota Mutual Life Insurance Co.	Great-West Life Assurance Co.	Total
Actives	18,525	32,598	27,669	78,792
Inactives	7,839	4,595	13,903	26,337
Withdrawals:				
- partial	56	214	361	631
- lump sum	501	1,407	1,303	3,211
- ongoing	1,189	2,479	1,864	5,532
Contributions	\$38,675,975	\$53,815,088	\$53,778,393	\$146,269,956
Withdrawals	\$16,351,385	\$21,186,881	\$89,528,275	\$127,066,541

Rates of Return by Investment Option (Periods ended June 30, 1999)

Fund Name	Current	Five Year	Seven Year
Fixed Options:			
- Supplemental Fund fixed interest	5.90%	6.08%	6.27%
- Great-West 36-month certificate	N/A	5.17	4.64
- Great-West 84-month certificate	N/A	6.54	6.56
- Minnesota Life general account	5.50	6.27	6.42

Each of the fixed options has administrative and investment expenses. These expenses are paid through a reduction in investment earnings, which is taken into account when the providers declare the current interest rate that a Deferred Compensation account earns.

		One	Three Year	Five Year	Annual
Fund N	lame	Year	Average	Average	Expenses
Variat	ole options:				
-	Supplemental Fund money market	4.93%	5.14%	5.18%	0.41%
-	Great-West money market	3.83	4.10	4.15	1.41
-	Minnesota Life Advantus money market	3.65	3.91	3.90	1.58
Bondo	option:				
-	Minnesota Life Vanguard corporate portfolio	-2.66	6.94	7.84	1.32
-	Supplemental Fund bond market	2.27	7.19	7.75	0.45
-	Great-West Max Corp. Bond - Loomis Sayles	1.86	8.64	N/A	1.85
Balanc	ced options:				
-	Great-West Maxim Invesco balanced portfolio	15.63	N/A	N/A	1.95
-	Supplemental Fund income share	13.16	18.39	18.22	0.41
-	Minnesota Life Vanguard Wellington	9.52	16.89	17.29	1.31
Dome	stic stock options:				
-	Minnesota Life Advantus index	21.02	26.85	25.55	1.44
-	Supplemental Fund common stock index	19.31	25.74	25.20	0.41
-	Supplemental Fund growth share	16.87	25.35	24.58	0.58
-	Great-West Max Chase Vista growth and income	10.02	19.75	N/A	1.95
-	Great-West Max Midcap-Janus growth fund	26.70	16.12	21.24	1.97
-	Great-West Amcent: Twencentury Ultra fund	20.87	23.78	24.42	1.95
-	Minnesota Life Fidelity Contrafund	23.95	25.13	24.30	1.65
-	Minnesota Life Janus twenty	48.88	42.24	35.35	1.91
Interna	ational stock options:				
-	Supplemental Fund International	8.90	8.89	8.97	0.63
-	Great-West Templeton International	-1.21	4.81	7.60	2.16
-	Minnesota Life Scudder International	8.00	13.31	11.24	2.18



Participating Employers

Adrian ISD, No. 511
Albany ISD, No. 745
Alexandria, City of
Alexandria ISD, No. 206
Alexandria Light and Power
Amalgamated Transit Union 1005
American Federation of State, County
and Municipal Employees
Annandale ISD, No. 876

Annandale ISD, No. 8 Anoka, City of

Anoka, City of Anoka County

Anoka/Hennepin ISD, No. 11 Armory Building Commission Arrowhead Library System

Arrowhead Regional Development Commission Duluth Transit Authority

Austin, City of Austin ISD, No. 492 Bagley, City of

Bagley Public Utilities Commission

Baudette, City of Becker County

Becker Soil and Water Conservation District

Belgrade/Brooten/Elrosa ISD, No. 2634

Beltrami County Beltrami Courthouse Bemidji ISD, No. 31 Bertha/Hewitt ISD, No. 786 Big Lake ISD, No. 727 Bloomington, City of Blue Earth, City of

Bird Island/Olivia/Lake Lillian ISD, No. 2534

Brainerd, City of

Brainerd Housing and Redevelopment Authority Farmington ISD, No. 192

Brooklyn Center ISD, No. 286 Brooklyn Park, City of Buffalo, City of Buffalo ISD, No. 877 Burnsville, City of Burnsville ISD, No. 191 Caledonia, City of Cambridge, City of Cannon Falls ISD, No. 252

Carlton, City of Carlton County Carlton ISD, No. 93

Carlton Soil and Water Conservation District

Carver County Centennial ISD, No. 12 Champlin, City of Chanhassen, City of Chisago, City of Chisago County

Chisago Lakes ISD, No. 141 Circle Pines, City of Clearwater County Cleveland ISD, No. 391 Cold Spring ISD, No. 750 Cold Springs, City of Columbia Heights, City of Columbia Heights ISD, No. 13

Columbus, Township of Cook County

Cook County Hospital Cottage Grove, City of Cromwell ISD, No. 95

Crop Improvement Association

Crosby, City of

Crosby/Ironton ISD, No. 182

Crosslake, City of

Crosslake Telephone Company

Crow Wing County
Crystal, City of
Dakota County
Dawson, City of
Deephaven, City of
Deer River, City of
Delano ISD, No. 879
Dilworth, City of
Duluth, City of

Duluth Convention and Entertainment Center Keewatin, City of

Duluth Housing and Redevelopment

Duluth ISD, No. 709

Duluth Teachers' Retirement Association

Eagan, City of
East Bethel, City of
East Central Schools

East Central Regional Library Eden Prairie, City of Eden Prairie ISD, No. 272 Eden Valley/Watkins ISD, No. 463

Edina, City of Elk River, City of Elk River ISD, No. 728 Elk River Municipal Utilities

Ely, City of Eveleth, City of

Eveleth/Gilbert ISD, No. 2154

Fairfax, City of
Faribault, City of
Faribault ISD, No. 656
Farmington ISD, No. 192
Floodwood ISD, No.698
Foley ISD, No. 51
Fosston ISD, No. 601
Forest Lake, City of
Forest Lake ISD, No. 831
Foster Wheeler Inc.
Frazee ISD, No. 23

Freshwater Education District Gillette Children's Hospital Glencoe Area Health Center

Glencoe, City of

Glencoe/Silver Lake ISD, No. 2859

Grand Marais, City of Grand Rapids ISD, No. 318

Grand Rapids Public Utilities Commission

Granite Falls ISD, No. 894 Great River Regional Library Greenway/Coleraine, ISD, No. 316

Ham Lake, City of Hastings ISD, No. 200 Hennepin County of Hennepin Parks

Hennepin Technical Centers Hermantown, City of Hermantown, ISD, No. 700

Hibbing, City of

Hibbing Public Utilities Commission

Hill City ISD, No. 2 Holdingford ISD, No 738 Hopkins ISD, No. 270 Howard Lake, City of

Howard Lake/Waverly ISD, No. 880

Hoyt Lakes, City of Hubbard County

Hubbard County Heritage Living Center

Hutchinson ISD, No. 423

Itasca County Soil and Water District

Itasca Electric Cooperative
Itasca Medical Center
Itasca Nursing Home
Jackson, City of
Jordan, City of
Jordan ISD, No. 717
Kanabec County
Kasson, City of

Kasson/Mantorville ISD, No. 204

Keewatin, City of Koochiching County La Cresent, City of Lake City ISD, No. 813

Lake County

Lake Agassiz Regional Library Lake of the Woods ISD, No. 390 League of Minnesota Cities Le Center ISD, No. 392

Legislative Coordinating Commission

Litchfield, City of Litchfield Public Utilities Littlefork Medical Center Littlefork ISD, No. 362 Long Lake, City of Long Prairie, City of Mahnomen, City of

Mahnomen, City of Mahnomen County Mahtomedi ISD, No. 832 Mankato ISD, No. 77 Maple Grove, City of Maple Lake ISD, No. 881 Maplewood, City of Marble, City of McGregor, City of McGregor ISD, No. 4 McLeod County Medina, City of

Meeker/Wright Special Education Cooperative,

No. 938 (MAWSECON)

Melrose, City of Melrose ISD, No. 740 Mendota Heights, City of

Meeker County

Mertropolitan Airports Commission

Metropolitan Council

Metropolitan Council Transit Commission,

Mechanics

Metropolitan Education Cooperative

Service Unit

Metropolitan Sports Facility Commission Middle Management Association

Mid-Minnesota Development Commission

Milaca ISD, No. 912

Minneapolis, City of

Minneapolis Community Development Agency

Minneapolis ISD, No. 1

Minneapolis Pubic Housing Authority Minneapolis Teachers' Retirement Fund Minnesota Association of Professional

Employees
Minnesota Historical Society
Minnesota Horticultural Society
Minnesota Public Utilities Commission
Minnesota River Valley Special
Education Cooperative

Minnesota Valley Cooperative Center, No. 978

Minnesota Safety Council

Minnesota Senate

Participating Employers

Mora, City of Mound, City of Mound ISD, No. 227 Mounds View, City of Mounds View ISD, No. 621 Mountain Iron, City of Multi-County Nursing Service

Nashwauk, City of Nevis, City of New Hope, City of New Prague, City of New Prague ISD, No. 721 New Scandia, City of New Ulm, City of New Ulm ISD, No. 88 New York Mills ISD, No. 553

Nisswa, City of Nobles County

North Branch ISD, No. 138

North Branch Municipal Water and Light Northeast Educational Cooperative Service

Northfield, City of Northfield ISD, No. 659 Norwood ISD, No. 108 Oakdale, City of Onamia, ISD, No. 480 Orono, City of Orono ISD, No. 278 Osseo ISD, No. 279 Ottertail County

Ottertail Water Management District Ottertail Lakes Area Sewer Commission

Owatonna, City of Owatonna ISD, No. 761 Owatonna Public Utilities Parkers Prairie ISD, No. 547

Paynesville, City of
Paynesville, Community

Paynesville Community Hospital Paynesville ISD, No. 741

Pine County

Pine County Soil and Water Conservation District

Pine Island ISD, No. 150 Pioneerland Library Systems Pipestone, County of Plum Creek Library System Plummer ISD, No. 628

Pope County

Prinsburg ISD, No. 815 Prior Lake, City of Prior Lake ISD, No. 719 Proctor, City of

One of Cities Cala

Quad Cities Cable Commission

Ramsey, City of Ramsey County Redwood Falls, City of Regions Hospital Revisor of Statutes, Office of

Richfield, City of Right Step Inc. Robbinsdale, City of Robbinsdale ISD, No. 281 Rochester ISD, No. 535 Rockford, City of Rockford ISD, No. 883 Rosemount ISD, No. 196 Roseville, City of Roseville ISD, No. 623 Sandstone, City of

Sartell, City of

Sartell/St. Stephen ISD, No. 748

Sauk Centre, City of Sauk Centre ISD, No. 743

Sauk Centre Water, Light and Power

Commissions Sauk Rapids ISD, No. 47

Savage, City of

Scott Soil and Water Conservation District

Shakopee ISD, No. 720

Shakopee Public Utilities Commission

Sibley County

South St. Paul ISD, No. 6

South Washington County ISD, No. 833

Springfield, City of Spring Lake Park, City of Spring Lake Park ISD, No. 16 Spring Valley, City of St. Anthony, City of

St. Cloud, City of St. Cloud ISD, No. 742 St. Francis ISD, No. 15 St. Louis County

St. Louis Park, City of St. Louis Park ISD, No. 283

St. Michael/Alvertville ISD, No. 885

St. Michael, City of St. Michael's Hospital St. Paul, City of St. Paul ISD, No. 625 St. Paul Park, City of

St. Paul Teachers' Retirement Association

St. Paul Port Authority
St. Paul Public Housing
St. Peter, City of
St. Peter, Community, H.

St. Peter Community Hospital St. Peter ISD, No. 508 State of Minnesota

Staples, City of

Staples/Motley ISD, No. 2170 Stewartville ISD, No. 534 Stillwater ISD, No. 834 Swanville ISD, No. 486

Teachers' Retirement Association Thief River Falls ISD, No. 564 Traverse Des Sioux Library Two Harbors, City of University of Minnesota

Upsala, City of Upsala ISD. No. 487 Utilities Plus

Verndale ISD. No. 818 Victoria, City of Viking Library System

Virginia Regional Medical Center

Virginia ISD, No. 706

Wadena/Deer Creek ISD, No. 2155 Walker/Hackensack/Akeley ISD, No. 113

Warroad, City of Washington County

Watertown/Mayer ISD, No. 395 Waterville ISD. No. 2143 Wayzata ISD, No. 284

West Lake Superior SanitationDistrict

West St. Paul, City of West St. Paul ISD, No. 197 White Bear Lake, City of White Bear Lake ISD, No. 624

Wilkin County

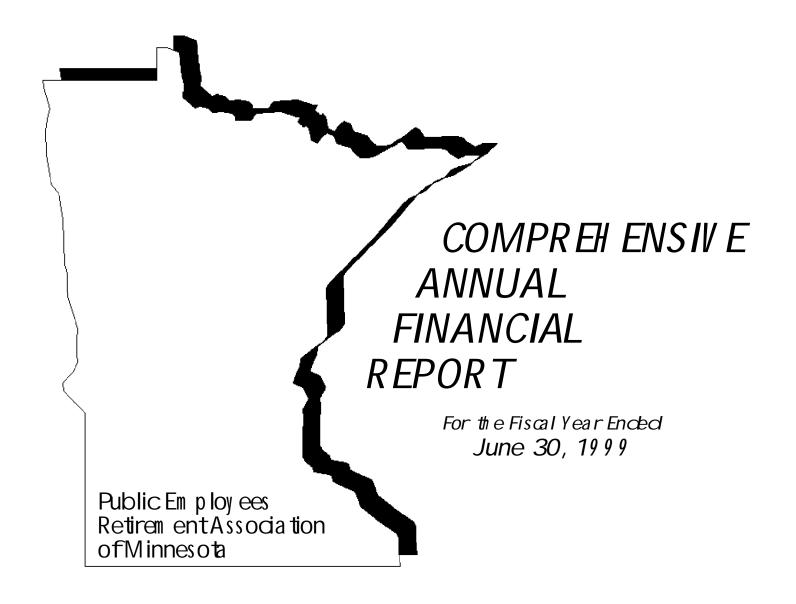
Wilkin Soil and Water Conservation District

Willmar, City of Willmar Municpal Utilities Willow River ISD, No. 577 Windom Area Hospitals Windom, City of Winona ISD, No. 861 Worthington, City of Worthington ISD, No. 518

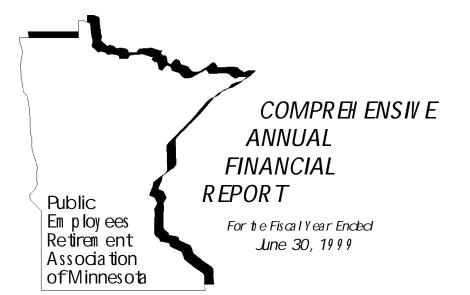
Worthington Regional Hospital

Wright County









68
Years of
Service
to
Minnesota's
Public
Employees

Pension Trust Funds of the State of Minnesota

Board of Trustees

Gary R. Norstrem — Board President, Elected Retiree/Disabilitant Membership Representative

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Richard H. Stafford — Counties Representative

Executive Director

Mary Most Vanek

Report prepared by Finance and Pension Services Division Staff:

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Gary Hovland — Senior Accounting Supervisor

John Paulson — Communications Specialist

Susan Thomas — Accounting Officer

Gallery Tower Office Building 514 St. Peter Street, Suite 200 St. Paul, Minnesota 55102-1090 (651) 296-7460



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Achievement Awards

GFOA

The Government Finance Officers Association (GFOA) recognizes public retirement systems that meet its rigorous standards for financial reporting with its annual Certificate of Achievement for Excellence in Financial Reporting. It is the highest form of recognition for accounting and financial reporting in the public pension sector. This is the 14th time in the last 15 years PERA has been so honored.

President's Report

Public Employees Retirement A ssociation of Minnesota 514 St. Peter Street, Suite 200 St. Paul, Minnesota 55102 (OFFICE) 651 296-7460 (TOLL FREE) 1 800 652-9026 (FAX) 651 297-2547



December 10, 1999

Dear Members, Annuitants, Beneficiaries and Governmental Employers:

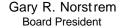
This 68th annual financial report of the Public Employees Retirement Association (PERA) discloses financial, actuarial, and other related information about PERA and the funds it administers. On June 30, 1999, PERAs net assets available for benefits at fair value exceeded \$14 billion. This reflects a \$1.3 billion, or 9.8 percent, increase over net assets available for benefits at the beginning of the fiscal year.

Fiscal Year 1999 continued to be another outstanding year at PERA. The continued bull market dramatically enhanced investment performance. The total rate of return for the a ssets of the active employees covered by PERA was 11.3 percent for the 12 months ended June 30, 1999. For the past five years, these investments outperformed the 17.7 percent composite market return benchmark, with a favorable annualized return of 17.9 percent. This rate of return is well above the fund's actuarial assumed rate of return of 8.5 percent per year. During this period, the increased value of the portfolio resulted from above inde x performance and the positive impact of the Minnesota State Board of Investment's periodic rebalancing of the portfolio back to its long-term asset allocation targets. This asset allocation has allowed SBI to benefit from the tremendous run of the equity markets.

As the active employees of PERA retire, assets required to cover expected benefits are transferred to the Minnesota Post Retirement Investment Fund (MPRIF). PERA has a pooled interest in the fund with other Minnesota statewide pension systems. The market value of this pool of assets increased to \$19 billion at fiscal year end. PERA's share of that pool increased to \$7.4 billion. The MPRIF supports the annuities payable to retirees and their joint annuitants, and also finances the annual post-retirement increases from invest - ment earnings in excess of 6 percent. Since July 1, 1994, the MPRIF has outperformed the composite market return benchmark by five-tenths (0.5) of one percentage point, with an annualized return of 17.2 percent.

PERA kept extremely busy this year preparing for the future. Having already spent two years developing a service center along with the hardware and software needed to support faster and better service to our members, we turned much of our attention in FY98 and FY99 to our employers and the way we collect contributions and information from them. We worked closely with those employers to develop a new way of collecting and managing that information that will be more efficient for all of us. The new systems we develop will ensure Year 2000 compatibility, provide more flexibility in the way information is pro vided to us, and allow us to take advantage of technological advances.

New legislation in 1999 created a local government correctional service retirement plan for PERA members who spend at least 95 percent of their work time in direct contact with persons confined in a county-administered jail or multi-county correctional facility. The new law provides enhanced benefits for that group of members, funded with increased contribution rates for both members and their employers.



1999 legislation lowered contribution rates for Police and Fire Fund members and allowed the 44 consolidated funds to fully merge with the Police and Fire Fund effective July 1, 1999. All 44 funds have elected to merge. Cities with funds that are underfunded will lock in their liability and amortize that liability over 10 years.

Legislation was also passed allowing PERA and the other two statewide retirement systems to build or purchase a facility for co-location in the fall of 2001. We believe that in the long run it is financially advantageous to own a facility rather than to rent space, and will soon be purchasing land and beginning construction of a new facility to house all three retirement systems.

As always, our commitment as trustees of the association is the preservation and growth of the assets of PERA's funds, and the protection and furtherance of the interests of our members, annuitants, beneficiaries, employer units and the State of Minnesota. I believe our efforts over the past year have amply illustrated this continuing dedication.

Sincerely.

Gary R. Norstrem President

President PERA Board of Trustees

GN/jp

Letter of Transmittal

Public Employees Retirement Association of Minnesota
514 St. Peter Street, Suite 200
St. Paul, Minnesota 55102
(OFFICE) 651 296-7460
(TOLL FREE) 1 800 652-9026
(FAX) 651 297-2547

December 9, 1999

Board of Trustees Public Employees Retirement Association of Minnesota 514 St. Peter Street, Suite 200 St. Paul, Minnesota 55102-1090

Dear Trustee:

We are pleased to present this Comprehensive Annual Financial Report of the Public Employees Retirement Association (PERA) for the fiscal year ended June 30, 1999—our 68th year of operation. The information contained in this report is accurate in all material respects and is intended to present fairly the financial status and results of operations of the association. The report consists of five sections:

Introductory Section contains this letter of transmittal, the president's report, a summary of the membership requirements and the benefit structures of PERA's funds, a directory of the Board of Trustees and a description of the administrative organization;

Financial Section includes the basic financial statements, supplementary information, supporting schedules, and the independent auditor's report on the financial statements;

Investment Section contains a summary of investment returns, asset allocation, list of largest assets, asset cost and market values;

Actuarial Section includes the independent actuary's certification letter, summaries of the actuarial assumptions and methods used in the annual valuation, results of the June 30, 1999 actuarial valuation, and other actuarial information; and

Statistical Section contains tables and schedules of significant data pertaining to the association and identifies affiliated employers and consolidated local relief associations.

Responsibility for the contents of this report, including the financial statements, rests solely with the management of the association. We trust you will find this publication is helpful in understanding PERA and its funds, and contains sufficient information to allow valid comparisons of operating results with similar public employee retirement systems.

Reporting Entity

For financial reporting purposes, PERA is considered a pension trust fund of the State of Minnesota. The State acts as a trustee of the pension plan, and reports our assets in the State's annual report as pension trust fund assets.

PERA serves more than 2,000 separate governmental entities. These participating employers include cities, counties, townships, and school districts located throughout the state. At June 30, 1999, PERA's membership included 149,285 current, active employees and 50,518 retirees and beneficiaries.



Letter of Transmittal

(Continued)

Accounting Systems and Reports

All financial statements are prepared in conformity with Statement 25 provisions and other generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The financial statements also comply with Minnesota Statutes, Section 356.20. PERA's transactions of its Public Employees Retirement Fund (PERF), Public Employees Police and Fire Fund (PEPFF), Police and Fire Consolidation Fund (PFCF), and Public Employees Defined Contribution Plan (PEDCP) are reported on the accrual basis of accounting.

PERA's internal accounting controls are designed to provide reasonable assurance for the safekeeping of assets and the reliability of all financial records. Our independent auditors reported no material weaknesses in our internal control structure and no departures from finance-related legal provisions for fiscal year 1999.

Revenue

Employer and employee contributions, income from investments and income from other miscellaneous sources provide the funds needed to cover the liability for present and future benefits. Income for the fiscal year (FY) ended June 30, 1999 totaled \$1,944,268,000. This represents a 28.3 percent decrease from FY98 revenues, as shown in the table below.

The increase in employee and employer contributions resulted primarily from an increase in average annual earnings and in the number of members contributing to the PERF and PEPFF (see schedule on page 47). Statutory contribution rates for both employers and employees of PERA's defined benefit plans remain unchanged from the prior year, though rates were increased 1/1/98 for the PERF, halfway through FY98.

Net investment income of the PERA funds accounted for the largest share—approximately 78 percent—of total revenue. Net investment income grew by \$1.5 billion, a healthy rise but not as large as last year's \$2.3 billion increase.

The decrease in 'Other Income' was due to initial assets being turned over to the PFCF by two local relief associations who consolidated with PERA during fiscal year 1998.

Revenue Source	FY	FY	Percent
(in thousands)	1999	1998	Inc./(Dec.)
Member Contributions	\$ 193,579	\$ 173,362	11.7%
Employer Contributions	232,077	208,326	11.4
Net Investment Income	1,513,820	2,305,833	(34.3)
Other Income	4,792	25,797	(81.4)
Totals	\$1,944,268	\$2,713,318	(28.3) %

Expenses

The annual expenses of PERA's defined benefit funds reflect the aggregate cost of monthly annuity and benefit payments to retired or disabled members and their survivors, refunds of employee contributions (plus interest) to terminated former members, and the cost of administration. Operating expenses during the fiscal year totaled \$639,082,000, an increase of 14.4 percent over such expenses in FY98, as shown below.

Expense Type	FY	FY	Percent
(in thousands)	1999	1998	Inc./(Dec.)
Benefits	\$607,053	\$529,885	14.6%
Refunds	19,288	18,920	1.9
Administrative	10,713	7,879	36.0
Other Totals	2,028	1,835	10.5
	\$639,082	\$558,519	14.4%

The increase in benefits reported for the fiscal year resulted mainly from the growth in the total number of benefit recipients and the higher average benefit payments (see schedules on pages 48-49). Because PERA is in the midst of upgrading its technological infrastructure to be more efficient and Year 2000 compliant, and increasing the services provided to members, administrative expenses increased 36 percent. PERA is still able, however, to administer the defined benefit plans for approximately 1/10 of 1 percent of assets.

Investments

In accordance with Minnesota Statutes, Section 353.06, assets of the PERA Funds are invested by the Minnesota State Board of Investment (SBI). All investments undertaken by the SBI are governed by the common law prudent person rule and other standards codified in Chapter 11A of the Minnesota Statutes. The board is comprised of the state's elected officers: Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; Secretary of State Mary Kiffmeyer; and State Attorney General Mike Hatch.

The SBI appoints a 17-member Investment Advisory Council (IAC) to advise the State Board on asset allocation and other policy matters relating to investments. The IAC also advises the SBI on methods to improve the rate of return while assuring adequate security of the assets under management. The executive director of PERA is a standing member of the IAC.

The IAC has formed four committees organized around broad investment subjects relevant to the board's decision making: asset allocation, domestic managers, international managers, and alternative investments. All proposed investment policies are reviewed by the appropriate committee and the full council before they are presented to the board for action.

The SBI also employs investment consultants to monitor and evaluate the investment management firms' performance and to

evaluate or suggest various alternatives for asset allocation and other investment policy matters.

Pension assets of the currently working members of the Association (see table below) are managed externally by private money managers retained under contract with the SBI. These assets are pooled with the assets of other active members Minnesota's state-wide retirement funds into the Basic Retirement Fund. The greatest share of these assets, over 65 percent, is invested in domestic and international common stocks in order to maximize the long-term rate of return. Including international stocks in the asset mix allows the SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio. For the year ended June 30, 1999, the Basic Retirement Funds produced a total rate of return on active member assets of 11.3 percent.

The SBI has one overriding responsibility in the management of these funds—to ensure that sufficient funds are available to finance promised retirement benefits. Within this context, SBI has established a long-term investment objective—to outperform a composite market index weighted to reflect the long-term asset allocation policy over a five-year period. Performance is measured net of all fees and costs to assure the SBI's focus is on true net return. The Basic Funds'five-year annualized rate of return at June 30, 1999 was 17.9 percent, above its target of 17.7 percent.

Market Value of Investments, June 30,1999 (in thousands)						
Fund	Active Members	Retired Members				
PERF	\$4,528,717	\$5,624,137				
PEPFF	2,119,844	927,991				
PFCF	492,038	870,183				
Totals	<u>\$7,140,599</u>	<u>\$7,422,311</u>				

The SBI also has responsibility for investment of the assets of the Minnesota Post Retirement Investment Fund (MPRIF). When a member retires, a sum of money sufficient to finance a fixed monthly annuity is transferred from the Basic Retirement Fund to the MPRIF. Assets of the retired members of the Association and their joint annuitants (see table above) are pooled in the MPRIF. These assets are also managed externally, sharing the same domestic stock, domestic bond, and international stock managers as the Basic Funds.

The SBI adopted a revised asset allocation strategy for the MPRIF in fiscal year 1993 to reflect the goals associated with the new post-retirement benefit increase formula. In order to maximize long-term rates of return in the equity markets, the SBI gradually allocated 50 percent of the assets to domestic stocks, and added allocations to international stocks and alternative assets. As of June 30, 1999, over 65 percent of the assets were invested in domestic and international stocks. The SBIs asset allocation strategy has been quite successful during this bull market run.

In contrast to the investment goals of the Basic Fund, invested for current working members, the MPRIF's goal is to ensure returns are adequate to meet the actuarially assumed return of 6 percent on its invested assets on an annualized basis and are sufficient to finance lifetime benefit increases.

The SBI measures performance of the MPRIF against a composite of market indices that is weighted to reflect its long-term asset allocation policy. The MPRIF is expected to exceed the composite index over a five-year period. Similar to the Basic Fund, MPRIF performance is reported net of all fees and costs to assure the SBI's focus is on true net return. For the five-year period since July 1, 1994, the MPRIF outperformed its composite index by five-tenths of one percent with an annualized return of 17.2 percent.

For the sixth year of experience with the new formula, we are pleased to announce the MPRIF will provide a benefit increase of 11.1436 percent for fiscal year 1999, payable January 1, 2000. This increase is comprised of two components:

- ➤ Inflation adjustment of 1.9%. This equals 100 percent of the reported Consumer Price Index for wage earners (CPI-W) for the 12 months ended June 30, 1999. This inflation com ponent is always granted, regardless of investment performance. The formula sets a maximum, or cap, of 2.5 percent in order to maintain the actuarial soundness of the plan. This amount is the difference between the 8.5 percent return as sumption for the Basic Funds and the 6 percent return as sumption for the MPRIF.
- ➤ Investment adjustment of 9.2436%. This represents a portion of the investment gains that exceed the amount needed to finance the actuarial assumed rate of return (6%) and the inflation component (1.9%). The formula requires that investment gains and losses be spread forward over five years to adjust for the volatility of short-term returns. Also, all accumulated investment losses must be recovered before an investment adjustment is granted.

Economic Conditions and Outlook

The economy continued to perform exceptionally well in FY99. Interest rates were at their lowest levels in years during the first half of the year, and consumers took advantage of those rates by purchasing large numbers of big-ticket items like cars and homes. As the economy heated up, corporate earnings rose 6 percent, the unemployment rate dropped to 4.3 percent, inventories were depleted, and the trade deficit widened. The Federal Reserve was forced to raise the fed fund's rate to 5.0 percent at the end of the year in an attempt to thwart inflation and keep the economy in check.

Low interest rates, low inflation, low unemployment and increased consumer spending proved to be positive for the equity markets once again. The Basic Retirement Fund and the MPRIF had annualized rates of return of 11.3 percent and 12.1 percent, respectively, well above our 8.5 percent assumed rate of return.

In Minnesota, the urban economy remained strong. The number of employees on non-farm payrolls increased by over 47,000 during the fiscal year. Seasonally adjusted

Letter of Transmittal

(Continued)

unemployment was at 2.6 percent, the lowest unemployment rate in the nation during 1998. Minnesota had the second highest labor force participation rate in the country (74.5 percent), the second highest rate of women participating in the labor force (67.9 percent), and led the nation in percentage of multiple job holders. Minnesota continued to rate high in income categories: median family income of \$60,577 is seventh in the nation; per capita personal income of \$27,510 is eleventh in the nation; and average annual wage of \$30,264 ranks twelfth in the nation.

A basic concept in labor economics called "full employment" is the condition where every individual who is interested and looking for a job in a specific labor market is able to find one. It was traditionally believed that full employment occurred when the unemployment rate hit 4.5 percent. The definition of what constitutes full employment is changing, however, as Minnesota registered the 20th consecutive month of unemployment below 3.0 percent, with few signs of inflation.

One of the biggest challenges our state will face in the next few years will be due to the tight labor market. For an economy to grow and output to increase, there must be either more workers or an increase in output per worker. Minnesota's labor force will grow more slowly in the next 20 years than it has in the past due to the availability of good jobs in the sunshine states and a baby boom generation on the brink of retirement. Economic growth, then, will increasingly depend on the quality of the labor force and improvements in worker productivity. Workers will be more likely to be employed in jobs which make full use of their skills. We will see increased emphasis on training at all levels in order to develop skills in our current work force.

Despite the tight labor market, the economic outlook as we move into the 21st century is good. Inflation remains in check due to committed central banks, privatization, technology advances, global competition and restructuring. Consumer confidence remains strong. Though interest rates have risen, they are still at relatively low levels and are expected to remain there during the next year. Foreign economies are emerging from recessions. Domestic and foreign equity markets should do well, though probably not achieving the kind of growth we have seen the past several years. SBIs policy of diversification is designed to provide some insulation against high inflationary or deflationary environments, and to avoid excessive return volatility. As long as the Basic Retirement Fund earns the assumed 8.5 percent annual rate of return, PERA's funding status should improve.

Current Funding Ratios

The primary funding objectives of the Association are: 1) to establish contribution rates which, when expressed as a percentage of active members payroll, will remain level from generation to generation; and 2) to meet the required deadlines for full funding. A pension fund is fully funded when it has present and projected assets sufficient to cover the liabilities for present and future annuities, benefits and refunds and the projected cost of fund

administration. Minnesota Statutes, Section 356.215, subd. 4(g), requires that the PERF and PEPFF be fully funded by the year 2020. Minnesota Statutes, Section 353A.09, subd. 5(2)(b)(1), requires full funding for the PFCF by the year 2010. The actuarial funding method followed by PERA is the entry age normal, level contribution as a percent of payroll method.

An important measure of the health of a retirement system is the level of funding—the better the level of funding, the larger the ratio of assets to accrued liabilities and the greater the level of investment income potential. Also, a better level of funding gives the participants a higher degree of assurance that their pensions are secure.

The Association's progress towards meeting the full funding objective is displayed on the Schedule of Funding Progress on page 28. This report shows the funding levels using the entry age normal actuarial cost method. At the end of FY99, the ratio of assets to liabilities of the PERF was 89.9 percent. For the PEPFF and the PFCF, the ratios were 134.2 percent and 106.0 percent, respectively.

Association's Status Report

The association staff activities of the past fiscal year have been focused on "Meeting the Challenge of a New Century." The Board of Trustees has been undeterred in its efforts to ensure that our information systems are ready to continue to provide the highest quality service to the members and beneficiaries of the plans administered under their governance. We are proud to say that the dedication of key personnel and the excellent work of our consultants and contractors have given us confidence in our ability to meet the challenges of the next millennium. We know that 2000 will lead us into a world in which daily we'll find ourselves "facing new challenges" for which we will need to be "finding new answers."

The day-to-day accomplishments of meeting the needs of our members are always first and foremost. At the same time, we know that we must move forward on major initiatives to stay abreast of the ever-changing technology developments. Throughout Fiscal Year 1999, the association saw the ideas formulated in the previous year transformed into actual systems ready to be implemented. The various initiatives on which a great deal of time and energy were spent this past fiscal year include, but are not limited to:

- ➤ The re-engineered systems and processes for collecting and managing the personal data and contributions of our participating members and employers, known as CAMI (Collect and Manage Information Systems), were made ready for implementation in July 1999.
- ➤ Development of the organizational structure and a plan to transition staff and hire new employees to process member information and contributions were finalized and made ready for implementation in July 1999.

- ➤ The details were ironed out for introducing document imaging and workflow into the working environment of the association so PERA can readily use this ever-evolving technology as efficiently and cost-effectively as possible.
- ➤ The Pension Information Response System (PIRS) was redesigned so that it is easier for staff to calculate benefits and generate letters to the tens of thousands of members who each year ask for detailed information about their accounts.

The 1999 Legislative Session was another busy time for the association. A number of proposals were introduced, and while not all were successful in moving through the session, those that were brought about some significant change to certain segments of the PERA membership. Some of the most significant legislative proposals worked on during FY 1999 were:

- ➤ Merging the 44 local consolidated police and fire accounts into the PERA Police and Fire Fund passed and will be imple mented effective July 1, 1999. The details of the merger were carefully considered to ensure that the best interest of the PERA Police and Fire membership and the merging consoli dated account members were aligned well with the interests of the contributing employers.
- ➤ The association along with the Minnesota State Retirement System and the Teachers Retirement Association were authorized to go forward with constructing a building to be owned jointly by the three retirement systems.
- ➤ Three public hospitals and another governmental entity, all of whom moved to a non-public status, were granted special benefit provisions for their employees who are no longer eligible to participate in the association. The staff spent many hours preparing to counsel these individuals and ensure that the affected members fully understood their options.
- ➤ A bill was introduced to change the threshold for determining when a public employee is eligible to participate in PERA. Staff worked closely with participating employers to come up with the recommendation, but the bill did not advance in the legislative process. It was decided that the policy recommendation of the bill would be discussed over the legislative interim and brought back for the consideration during the 2000 session.

New Services Added

Even though personnel resources have been stretched very thin, the staff members responsible for the association's educational programs were able to put together a couple of new programs for the membership.

➤ The first 'Police and Fire Members Only' workshops were held in FY 1999 and were very well received by those who attended. The benefits and issues of these members are significantly different than those of PERA Basic and Coordinated Plan members. It has long been a goal to provide special retirement planning programs for the unique segments of the mem -

- bership. We are pleased with the positive response received from the Police and Fire membership.
- ➤ A new program for younger members, *Dollars and Sense*, was introduced and booked to capacity within two days after the initial schedule was mailed to the membership. We look forward to offering more programs in the future to meet the demands for this great new service.
- ➤ The PERA web site was re-designed so that it allows faster response to members looking for information about their retirement plans. The web site has been well received, averaging over 5,300 hits each month. Enhancements to the site are being added periodically, and we should soon be able to accommodate members' requests for direct access to their own records through the Internet.

We are continually working to improve the lives of our members while at the same time ensuring the financial integrity of the funds. We know we face some real challenges in the coming year, but are confident that, as always, the Board of Trustees will guide the staff to a solution that represents what is in the best interest of our members and participating employers.

The association is blessed with a talented, dedicated group of people who hold the best interests of the members close to their hearts. It is only because of that attitude that we can say with confidence that when faced with new challenges, we will continually strive to find new answers—answers that result in the best possible solutions to enable us:

"To create opportunities for members to achieve a successful and secure retirement by providing benefits and services of the highest quality that members will value and trust."

Professional Services

The FY98 actuarial valuation of the PERA defined benefit plans was conducted by Milliman & Robertson, Inc., and completed in November 1998. Actuarial consulting services during the fiscal year were provided by William M. Mercer. In addition to providing a thorough review of Milliman & Robertson's FY98 actuarial valuation, Mercer also developed cost estimates for a variety of legislative proposals.

With respect to other professional services, the State's Attorney General continued to provide PERA with legal counsel. The State Board of Investment continued to manage and invest the assets of the PERA funds. KPMG Peat Marwick assisted in the development of a system that will assist us in collecting and managing information. They also helped us become Year 2000 compliant. IMERGE assisted in the development of an imaging and workflow plan that will be implemented in FY00. Finally, the State's Legislative Auditor continued to provide professional financial auditing services. The comments of the Legislative Auditor are found on page 17 of this report.

Letter of Transmittal

(Continued)

Reports to the Membership

This report is complemented by an annual financial newsletter that discloses, in summary form, the contents of this report. This financial newsletter is mailed in January of each year to all PERA members, and annuity and benefit recipients.

National Recognition

Finally, PERA is justly proud of the abilities, knowledge, drive and dedication of its employees. PERA recently received national recognition as a leader in pension fund administration and disclosure of financial information. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PERA for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 1998. PERA has received this honor for 14 of the last 15 years.

The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish a CAFR that is easily read, efficiently organized, and whose contents conform to program standards. Such comprehensive annual financial reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year only. We believe our current report continues to conform to the certificate requirements and we are submitting it to the GFOA.

Acknowledgments

As a compendium of financial, investment, actuarial and other statistical information, PERA's Comprehensive Annual Financial Report provides complete and reliable information on which management decisions may be based and through which compliance with statutory requirements may be assessed. In addition, the report serves as the primary source through which the effectiveness of the Trustees' management and administration of PERA and its funds may be judged.

We are sure you join with us in expressing gratitude and appreciation to the staff and PERA's advisors for their efforts in producing this report and for their loyal and dedicated service to the Association and its members, annuitants, beneficiaries, and governmental unit employers.

Nary Most Vanek David Legonge

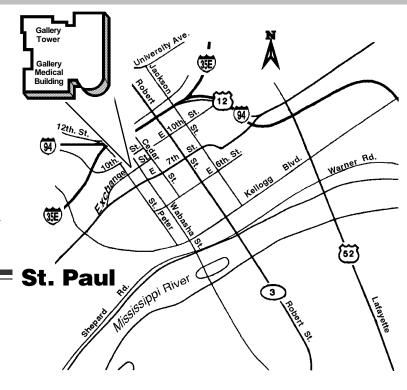
Respectfully submitted,

Mary Most Vanek
Executive Director

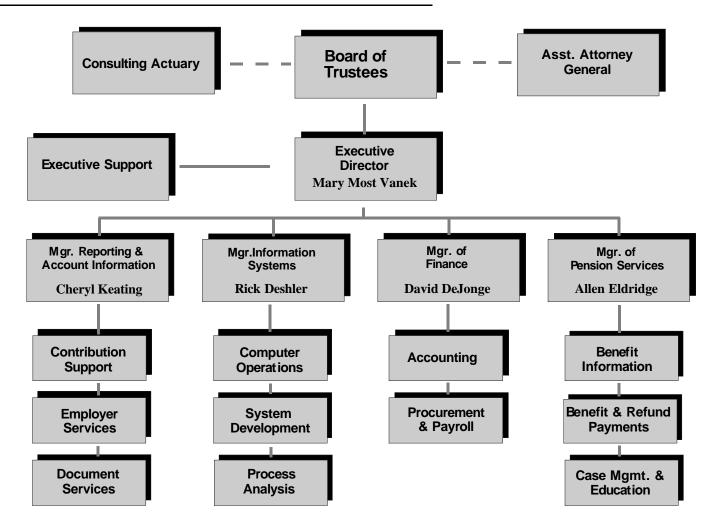
David DeJongeManager of Finance

PERA Office

PERA's office in St. Paul is located in the Gallery Tower Building. The address is 514 St. Peter Street, Suite 200, St. Paul. Office hours are from 8 a.m. to 4:30 p.m., Monday through Friday.



Administrative Organization



MISSION STATEMENT

PERA's mission is to create opportunities for members to achieve a successful and secure retirement by providing the highest quality benefits and services, that members will value and trust.

PERA's Vision:

PERA is seen by its members as an important part of their retirement solution because we:

Develop creative methods that enable them to make sound retirement and life-planning decisions;

Display relentless efforts to protect the fund and provide the best public pension packages; and

Deliver exceptional services any time, any place!

Board of Trustees



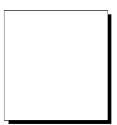
Gary R. Norstrem

Elected Retiree/Disabilitant Membership Representative 2080 Western Ave. N. Roseville, Minnesota 55113



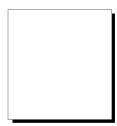
Michael G. Schwab

Elected Police and Fire Representative St. Paul Police Department 100 E. 11th St. St. Paul, Minnesota 55101



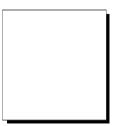
Judith H. Dutcher

State Auditor 525 Park Street, Suite 400 Saint Paul, Minnesota 55103



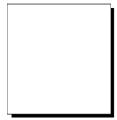
Ross E. Arneson

Elected Membership Representative 410 S. 5th St. PO Box 3129 Mankato, Minnesota 56002



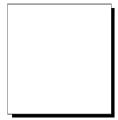
Dennis Dieser

School Board Representative Albert Lea Family Y 2021 W. Main St. Albert Lea, Minnesota 56007



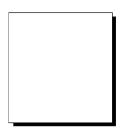
Walter C. Gray

Public Representative 5755 W. Broadway Ave, #206 Crystal, Minnesota 55428



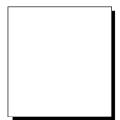
Terri Heaton

Cities Representative City of Bloomington 2215 W. Old Shakopee Rd. Bloomington, Minnesota 55431



Dawn M. Hulmer

Elected Membership Representative City of Duluth, Treasurer's Office Duluth City Hall, Room 105 Duluth, Minnesota 55802



Robert D. McCubbin

Elected Membership Representative City of Duluth Duluth City Hall, Room 211 Duluth, Minnesota 55802



Lois E. Riecken

Annuitant Representative 8794 100th Avenue Clear Lake, Minnesota 55319



Richard H. Stafford

Counties Representative 2421 Wimbledon Bay Woodbury, Minnesota 55125

Public Employees Retirement Association of Minnesota

The PERA Board consists of 11 trustees as follows: The State Auditor is a trustee by virtue of office. The governor appoints five trustees to represent counties, cities, school boards, retired annuitant s, and the general public. PERA active members elect five representatives-three general membership, one retiree/disabilitant, and one Police and Fire trustee-to serve four-year terms.

Summary of Retirement System Plan

Public Employees Retirement Association of Minnesota

Purpose

Established by the Minnesota Legislature in 1931, the Minnesota Public Employees Retirement Association (PERA) administers pension funds that serve approximately 190,000 county, school and local public employees, benefit recipients, their survivors, and dependents.

Funds administered by the association provide a variety of retirement pensions, and survivor and disability benefits. In the case of Coordinated members, these pensions and benefits are in addition to those provided by Social Security.

The PERA Board of Trustees is responsible for administering these funds in accordance with statutes passed by the Minnesota Legislature and has a fiduciary obligation to PERA's members, the governmental employers, the state, and its taxpayers.

Administration

The PERA Board of Trustees is composed of 11 members. The State Auditor is a member by statute. Five trustees are appointed by the Governor. Serving four-year terms, these five trustees represent cities, counties, school boards, retired annuitants, and the general public, respectively.

The remaining five board members are elected by the PERA membership at large to serve four-year terms. Three represent the general active membership, one trustee represents Police and Fire Fund members, and one trustee represents annuitants and benefit recipients. All five membership representatives were elected in January 1999.

The board appoints an executive director to serve as chief administrative officer of PERA. With approval of the board, the director develops the annual administrative budget, determines staffing requirements, contracts for actuarial and other services, and directs the day-to-day operations of the association. The director also serves as a member of the State Investment Advisory Council, which advises the Minnesota State Board of Investment on the management and investment of public pension funds and other assets.

Multi-Employer Participation

Approximately 2,000 separate units of government in Minnesota participate in the PERA-administered retirement system. These units include counties, cities, townships, and school districts.

Employee Membership

With certain statutory exceptions, an employee performing personal services for a governmental employer whose salary is paid, in whole or in part, from revenues derived from taxation, fees, assessments, or other sources, is a member of PERA. The type of membership depends upon which PERA plan covers the individual member's employment position. In the case of Basic members, it also depends upon when the individual was hired into public service. PERA has approximately 150,000 active members.

Funds

PERA administers four separate funds. Each has specific membership, contribution, benefit, and pension provisions.*

The Public Employees Retirement Fund encompasses two plans — the PERA Coordinated Plan and the PERA Basic Plan. The Coordinated Plan, created in 1968, provides retirement and other benefits in addition to those supplied by Social Security. The Basic Plan, established in 1931, is not coordinated with the federal program.**

The **Public Employees Police and Fire Fund**, originally established in 1959 for police officers and firefighters not covered by a local relief association, now encompasses all Minnesota police officers and firefighters hired since 1980.

The **Police and Fire Consolidation Fund** was created in 1987 for members of

Note:

- * Effective July 1, 1999, the Minnesota
 Legislature established a new fund for the state's local correctional officers. At the same time, the Police and Fire Consolidation Fund was merged with the Police and Fire Fund. These changes will be reflected in the Year 2000 CAFR.
- ** PERA's Basic Plan was closed to new membership in 1968 with the creation of the Coordinated Plan. Basic members had the option of remaining in that plan or transferring to the new Coordinated Plan following its establishment.

Summary

(Continued)

Note:

- * Under legislation enacted in May 1999, the contribution rates for the Police and Fire Fund were reduced to 6.2 percent for members and 7.6 percent for employers, effective the first full pay period in July, 1999.
- ** This is the rate
 established for elected
 public officials and
 physicians. For
 ambulance service
 personnel, employers
 decide whether they
 will participate in the
 plan and what the
 contribution will be for
 employees. Salaried
 employees may match
 this contribution.

local police and fire relief associations that have elected to have PERA administer their plans. While administrative duties of these local associations have been transferred to PERA, the responsibility for investing their assets has been transferred to the State Board of Investment.

Also administered by PERA is the **Public Employees Defined Contribution Plan**. Established by the Minnesota Legislature in 1987 to provide a retirement plan for personnel employed by public ambulance services, the plan has been expanded to include physicians and locally-elected public officials, except for county sheriffs.

Contributions

The table below shows contribution rates for employees and employers under the various plans administered by PERA as of June 30, 1999. Rates are applied to total salary and are set by statute.

Fund	Employee Contribution	Employer Contribution
Public Employees Retirement Fund Coordinated	4.75%	5.18%
Basic	8.75%	11.43%
Public Employees Police and Fire Fund*	7.60%	11.40%
Police and Fire Consolidation Fund	7.60%	11.40%
Defined Contribution P	lan 5.00%	5.00%**

In addition to contributions to the funds administered by PERA, Coordinated members contribute to Social Security and are eligible for benefits earned through those deductions. Police and Fire Fund members hired after March 31, 1986 contribute to Medicare, as do some Basic Plan members who elected such coverage in 1989.

Retirement Benefits Eligibility and Annuity Formulas

Basic and Coordinated Members

Two methods are used to compute benefits for Coordinated and Basic members—a step-rate benefit accrual formula (Method 1) and a level accrual formula (Method 2). The retiring member receives the higher of the two calculated amounts.

Method 1: Coordinated members accrue 1.2 percent of the average salary they were paid over their five highest-paid consecutive years of service for each of the first 10 years of public employment, and 1.7 percent of that average salary for each successive year. Basic members receive 2.2 percent of their average salary for each of their first 10 years of service and 2.7 percent for each year thereafter.

Using this calculation, members are eligible for a full (unreduced) retirement annuity if:

- ➤ They are age 65 or over with at least one year of public service; or
- ➤ Their age plus years of public service equal 90 (Rule of 90).

A reduced retirement annuity is payable as early as age 55 with three or more years of service. The reduction is .25 percent for each month under age 65. A member with 30 or more years of service may retire at any age with the .25 percent reduction made from age 62 rather than 65.

Method 2: Coordinated members earn 1.7 percent of their average salary for every year of public service while Basic members earn 2.7 percent of their average salary for each year.

This calculation provides for unreduced retirement benefits at age 65 for members first hired prior to July 1, 1989, and at the age for unreduced Social Security benefits, capped at age 66, for those first hired into public service on or after that date.

Early retirement results in an actuarial reduction with augmentation (about 6 percent per year) for members retiring prior to qualifying for unreduced retirement benefits.

Police and Fire Members

Members receive 3 percent of average salary for each of their years of service.

An unreduced retirement annuity is payable to members when they meet the following conditions:

- ➤ Age 55 with a minimum of three years of service; or
- Age plus years of service equal at least 90.

A reduced retirement annuity is available to members between the ages of 50 and 55. There is a 2.4 percent reduction in benefits for each year a member retires prior to qualifying for an unreduced retirement benefit.*

Police and Fire Consolidation Members

Members of the Police and Fire Consolidation Fund are covered by the benefit provisions and formulas of their local plans, unless they choose to be covered by provisions identical with those of the PERA Police and Fire Fund.** Members may elect PERA Police and Fire Fund-type benefits:

- Within 180 days of the effective date for the consolidation of the local relief association with PERA:
- At the time a member is between ages $49\frac{1}{2}$ and 50; or
- ➤ At the time the member retires and sub mits an application for a pension or disability benefit.

Defined Contribution Plan Members

The Defined Contribution Plan's benefit amount is determined by the performance of the funds in which contributions are invested. The entire market value of the member's account is payable upon termination of public service, disability, retirement, or death.

Types of Pensions Available

Members of the PERA Basic and Coordinated Plans, the Police and Fire Fund, and members covered by the Police and Fire Consolidation Fund who elect PERA Police and Fire-type benefits may select from several types of retirement benefits.

Single-life Pension — A Single-life Pension, formerly known as a Normal annuity, is a lifetime annuity that ceases upon the death of the retiree. No survivor benefit is payable.

Survivor Options —Upon retirement, members may choose from one of four Survivor Options. All these pensions are payable for the lifetime of the retiree. At the time of the retiree's death, the designated survivor continues to receive monthly benefit payments at varying levels for his or

her lifetime. Depending on the Survivor Option chosen by the member, survivor payments are at a 25, 50, 75 or 100 percent level of that received by the member.†

Pre-Age 62 Increase — This pension option allows a member who retires before age 62 to receive a greater monthly payment until he or she becomes eligible for Social Security at age 62. The monthly benefit amount is then reduced by at least \$100 at age 62.

Deferred Pension — A vested member who terminates public service may leave contributions in the fund or funds in which he or she participated and qualify for a pension at age 55 or over. The benefit amount, calculated as of the date of termination, will increase at a rate of 3 percent per year, compounded annually, until the first of the year following the member's 55th birthday. It will then increase at a rate of 5 percent per year, compounded annually.

Combined Service and Proportionate Pensions — Retiring members may elect to combine service in a PERA-covered position with service in any of 14 other Minnesota pension funds and qualify for a retirement benefit from each fund in which they participate. These funds are designated by statute. Members with three or more years of total service qualify for a combined service pension if they have six or more months of service in each fund and have not begun to receive a benefit from any of the designated funds. Pensions are based upon the formula of each fund and the member's average salary over the five highest-paid vears of service, no matter when it was

Public employees who retire at age 65 or older with between one and three years of service in one or more of 11 designated funds may qualify for a proportionate pension. Benefits are paid by each applicable fund in which the employee has credit and are based upon the formula of each fund and the member's average salary during the period of service covered by that fund.

Maximum Benefit — Initial monthly benefits, adjusted for pre-taxed contributions, may not exceed the average of a member's three highest-paid consecutive calendar years of service.

This limit affects only a small number of PERA members.

Note:

- * The percentage reduction for early retirement for Police and Fire Fund members was reduced to 1.2 percent per year, effective July 1, 1999.
- ** While the Police and Fire benefit accrual rate is 3 percent per year, the accrual rate for Consolidation members is 2.9 percent. The additional .1 percent is at the option of cities with local police and fire relief associations. Once the Consolidation Fund is merged with the Police and Fire Fund on July 1, 1999, all active members will have a 3 percent benefit accrual rate.
- † Selection of a Survivor Option will result in a reduction in the amount of the pension from the Single-life pension level. This reduction is made because the benefit will be payable over the lifetimes of both the member and the designated survivor. The amount of the reduction depends on the age of both the retiring member and the survivor.

All survivor pension options incorporate an automatic 'bounce back' feature. This returns the amount of the pension to the level of the Single-life benefit in the event the designated survivor predeceases the retiree. The cost of this protection is borne by the funds, not by the retiree.

Summary

(Continued)

Disability Benefits

Members may be eligible for benefits from PERA if they are unable to work because of a physical or mental disability. Disability is defined by statute, and PERA may require periodic medical examinations of those receiving these benefits.

Disability benefit calculations are based upon years of service and average salary earned during the five highest-paid consecutive years of service for Basic and Coordinated members, and for Police and Fire Fund members disabled outside the line of duty. In the case of Police and Fire members, there is a minimum non-duty disability benefit of 45 percent of that salary. For Police and Fire members disabled in the line of duty, the minimum benefit is 60 percent of salary.*

Basic and Coordinated members qualify for disability with three or more years of service and by meeting the statutory definition. Police and Fire members qualify by meeting the definition with one or more years of service if disabled outside the line of duty. If disabled in the line of duty, there is no minimum service requirement.

Members of the Police and Fire Consolidation Fund may receive disability benefits under the provisions of their individual relief association bylaws unless they have chosen PERA-type benefits. If that election has been made, benefits are the same as those for Police and Fire Fund members.

Survivor Benefits

PERA also provides survivor (death) benefits for families of members who qualify for such coverage. The qualifications and types of benefits vary with each fund.

A Lifetime Survivor Benefit is available to the surviving spouse of a Basic, Coordinated, or Police and Fire member. For Police and Fire, and Basic members, this benefit is based on either 50 percent of the member's average salary during six months prior to death or a formula using the member's total years of service, average salary during the highest-paid five consecutive years of service, age at death and age of the spouse. The surviving spouse benefit for Coordinated members is only based on the formula. This benefit is payable to the spouse of a deceased member for life, even upon remarriage.**

For survivors of Basic and Coordinated members, there are alternative term-certain benefits of 5, 10, 15, or 20 years duration. The monthly payment, however, may not exceed 75 percent of the member's average high five-year salary.

Survivor benefits are immediately suspended for any survivor charged with causing the death of an association member. The benefit is permanently revoked upon conviction for such a crime.

Dependent children of active or disabled Basic, and Police and Fire members are eligible for benefits until age 18, or age 23 if full-time students. In this case, the maximum family benefit is 70 percent of the member's average monthly salary. If a Coordinated member dies and there is no surviving spouse, any children under age 20 qualify to receive a monthly term-certain benefit.

Instead of a monthly benefit, the surviving spouse, if a designated beneficiary, may elect a refund of any remaining employee contributions in the account, plus 6 percent interest compounded annually. A refund may not be elected by Basic or Police and Fire surviving spouses, however, if there are dependent children.

Survivors of members of the Police and Fire Consolidation Fund are eligible for survivor benefits under the provisions of the individual relief association if the member has not chosen Police and Fire Fund-type benefit coverage or they may elect Police and Fire Fund-type coverage if the member died in the line of duty.

Refunds

Refunds of contributions are available at any time to members who leave public service and have not yet begun receiving a pension. The refund includes employee contributions plus 6 percent interest, compounded annually, for a member who terminated public employment after May 15, 1989.

A refund of member contributions plus interest may also be elected by the designated beneficiary of a member or former member who dies before reaching retirement. If there is no beneficiary, payment is made to the surviving spouse or, if none, to the estate of the deceased member or former member.

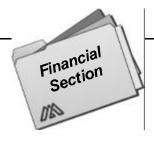
If a retiree and designated survivor, if any, die before all employee contributions are paid in the form of a pension or benefits, the remaining balance would be paid in the same manner outlined for beneficiaries.

No interest is paid to beneficiaries on the balance in an account if the member was receiving retirement benefits.

Not e:

- * Minimum disability benefits for Police and Fire Plan members increased from 53 percent of salary for disability in the line of duty, and 39.75 percent for non-duty related disability July 1, 1997.
- ** Lifetime Survivor
 Benefits are also
 available to the spouse
 of disabled Basic, and
 Police and Fire Fund
 members, and to
 survivors of disabled
 Coordinated members
 who choose a Survivor
 Option.

Legislative Auditor's Report





OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

James Nobles, Legislative Auditor

Independent Auditor's Report

Board of Trustees And Executive Director Public Employees Retirement Association:

We have audited the accompanying basic financial statements of the Public Em - ployees Retirement Association (PERA) for the year ended June 30, 1999, as listed in the Table of Contents. These financial statements are the responsibility of PERA's management. Our responsibility is to express an opinion on these financial state - ments based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reason - able assurance about whether the financial statements are free of material misstate - ment. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the ac - counting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit pro - vides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PERA at June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The required supplementary information on pages 28 to 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We did not audit this information and do not express an opinion on it. The supplemen - tary information is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted mainly of inquiries of man agement regarding the methods of measurement and presentation for the Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to Required Supplementary Information.

We were unable to apply to the Year 2000 required supplementary information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matter to be disclosed have not been established. In addition, we do not provide assurance that the PERA is or will become Year 2000 compliant,

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that its remediation efforts will be successful in whole or in part, or that parties with which PERA does business are or will become Year 2000 compliant.

Our audit was made for the pur pose of forming an opinion on the basic financial statements taken as a whole. The accompa nying financial information on pages 31 to 35 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures ap plied in the audit of the basic fi nancial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have issued a report dated December 1, 1999, on our consideration of PERA's internal control structure and compliance with laws and regulations.

James R. Nobles Legislative Auditor

Claudia J. Gudvangen, CPA Deputy Legislative Auditor

December 1, 1999

Statement of Plan Net Assets

As of June 30, 1999 (in thousands)

		Def	ined Bei	nefit Funds						
	E	Public mployees etirement Fund	-	Public Employees Police and Fire Fund	a	Police and Fire asolidation Fund	De Conti	Employees fined ribution lan	_	Total
Assets .										
Cash	\$	860	\$	174	\$	6	\$	3	\$	1,043
Receivables Accounts Receivable	\$	72,517	\$	110	\$	3,714			\$	76,341
Due from Other Funds		1,028		36		1				1,065
Other Assets		189		81		126				396
Total Receivables	\$	73,734	\$	227	\$	3,841			\$	77,802
Investments at fair value										
Equity in Minnesota Post Retirement Investment Fund	\$ 5.	,624,137	\$ 9	927,991	\$	870,183			\$ 7	7,422,311
External Equity Pool	1.	,669,972		781,098		181,460				2,632,530
Fixed Income Pool		949,122	4	443,973		103,312			1	1,496,407
Global Equity Pool		668,987	3	312,927		72,540			1	1,054,454
Passive Equity Pool		793,376	3	371,052		86,420			1	1,250,848
Venture Capital Pool		209,455		98,057		22,983				330,495
Real Estate Pool		158,519		74,229		17,397				250,145
Resources Pool		32,477		15,229		3,566				51,272
Short-Term Cash Equivalent		46,809		23,279		4,360				74,448
Investments for Defined Contrib. Total Investments	\$10	,152,854	\$3,0	047,835	\$1 ,	362,221		4,608 4,608	\$14	14,608 4,577,518
Securities Lending Collateral Fixed Assets, Net of Accumulated Depreciation Total Assets	\$	889 ,236,401		291,561 339,797		131,342 497,410	\$ <u>\$1</u>	957 <u>5,568</u>	\$	1,431,924 <u>889</u> <u>6,089,176</u>
<u>Liabilities</u>										
Accounts Payable	\$	2,336	\$	2,714	\$	42,544			\$	47,594
Accrued Compensated Absences	\$	523							\$	523
Payable to Other Funds	\$	27	\$	738	\$	233	\$	67	\$	1,065
Securities Lending Collateral Total Liabilities		,008,064		291,561 295,013		131,342 174,119	<u>\$</u>	957 1,024	_	1,431,924 1,481,106
Net Assets held in trust for Pension Benefits (A schedule of funding progress	\$10	,225,451	\$3,0	044,784	<u>\$1,</u>	323,291	\$1	4,544	\$14	4,608,070

(A schedule of funding progress for each plan is presented on page 28.)

Statement of Changes in Plan Net Assets

For the Fiscal Year Ended June 30, 1999 (in thousands)

	Public Employees Retirement <u>Fund</u>	Public Employees Police and Fire Fund	Police and Fire Consolidation <u>Fund</u>	Public Employees Defined Contribution Plan	<u>Total</u>
<u>A chitions</u>					
Contributions Employer Plan member Total Contributions	\$ 173,370 158,475 \$ 331,845	\$ 46,280 30,897 \$ 77,177	\$ 11,569 3,429 \$ 14,998	\$ 858 \$ \\ \frac{778}{\$ 1,636 \$ \$	232,077 193,579 425,656
Investments					
Investment income Less investment expense	\$ 1,053,123 (5,428)	\$ 324,926 (2,561)	\$ 136,111 (616)	\$ 1,711 \$ 1	1,515,871 (8,605)
Net Income from investing activities	\$ 1,047,695	\$ 322,365	\$ 135,495	\$ 1,711 \$ 1	1,507,266
From securities lending activities: Securities lending income Securities lending expenses: Borrower rebates Management fees	\$ 52,151 (45,920) (1,623)	\$ 15,081 (13,264) (475)	\$ 6,795 (5,985) (211)	\$ 56 \$ (49) (2)	74,083 (65,218) (2,311)
Net income from securities lending	\$ 4,608	\$ 1,342	\$ 599	\$ 5 \$	6,554
Total Net Investment Income	\$ 1,052,303	\$ 323,707	\$ 136,094	\$ 1,716 \$ 1	1,513,820
Other additions Total Additions	\$ 2,405 \$ 1,386,553	\$ 310 \$ 401,194	\$ 2,077 \$ 153,169	\$ 3,352 \$ 1	4,792 1,944,268
Dealictions					
Benefits Refunds of contributions Administrative expenses Other deductions	\$ 467,601 17,219 9,631 1,618	\$ 68,672 1,076 737 222	\$ 70,780 30 278 188	\$ 963 67	607,053 19,288 10,713 2,028
Total Deductions	\$ 496,069	\$ 70,707	\$ 71,276	\$ 1,030 \$	639,082
Net Increase	\$ 890,484	\$ 330,487	<u>\$ 81,893</u>	<u>\$ 2,322</u> <u>\$ 1</u>	1,305,186
Net assets heldin trust for pension benefits Beginning of year (as restated) End of year	\$ 9,334,967 \$10,225,451	\$2,714,297 \$3,044,784	\$1,241,398 \$1,323,291		3,302,884 4,608,070

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 1999

A. PLAN DESCRIPTION

1. Organization

PERA is the administrator of two cost-sharing, multiple-employer retirement plans, one agent multiple-employer retirement plan, and one multiple-employer deferred compensation plan.

The Public Employees Retirement Association (PERA) is the administrator of two cost-sharing, multiple-employer retirement plans, the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF). In addition, PERA administers one agent multipleemployer retirement plan, the Police and Fire Consolidation Fund (PFCF), and one multiple-employer deferred compensation plan, the Public Employees Defined Contribution Plan (PEDCP). The plans, including benefit provisions and the obligation to make contributions, are established and administered in accordance with Minnesota Statutes, Chapters 353, 353A, 353B, 353D, and 356. It is also these statutes that define

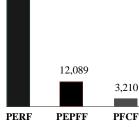
transfer assets and administration to PERA. Coverage under the PEDCP is open to elected local government officials (except elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities. Elected officials and ambulance personnel who are covered by a public or private pension plan because of their employment are not eligible to participate in the PEDCP. At June 30, 1999, there were 4,031 members in the plan.

Shown in **Figure 1** below are the membership totals in the PERA defined benefit plans as of June 30, 1999.

Fig. 1 PERA Membership									
	PERF	PEPFF	PCFC	TOTAL					
Retirees and beneficiaries receiving benefits	45,259	2,772	2,487	50,518					
Terminated employees entitled to benefits/refunds but not yet receiving them:									
Vested	14,060	344	24	14,428					
Non-Vested	18,491	195	0	18,686					
Current, active employees:									
Vested	97,440	6,850	699	104,989					
Non-Vested	42,368	1,928	0	44,296					
Total	217,618	12,089	3,210	232,917					

217,618

Plan Participation (Total Membership)



2. Participating Employers

financial reporting requirements.

PERA serves approximately 2,000 separate units of government in the PERF, 500 units of government in the PEPFF, 44 local relief associations in the PFCF, and 1,000 units in the PEDCP. These units of government are made up of counties, cities, townships, school districts, and generally other units of government whose revenues are derived from taxation, fees, or assessments. The defined contribution plan serves any local unit of government whose current or former elected officials elect to participate. The PEDCP also serves any publicly operated ambulance service that receives an operating subsidy from a governmental entity, and elects to participate.

3. Participating Members

The PERF covers employees of counties, cities, townships and employees of schools in non-certified positions throughout the State of Minnesota. The PEPFF, originally established for police officers and fire-fighters not covered by a local relief association, now covers all police officers and firefighters hired since 1980. The PFCF covers police officers and fire-fighters belonging to a local relief association that elects to merge with and

4. Benefit Provisions and Contribution Rates - Defined Benefit Plans

a) PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. All benefits vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. PERF members belong to either the Basic or Coordinated Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. Two methods are used to compute benefits for Coordinated and Basic members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2).

Under Method 1, the annuity accrual rate for Basic members is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. For a Coordinated member, the annuity accrual rate is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent for each

remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic members and 1.7 percent for Coordinated members for each year of service. For PEPFF members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For PERF members whose annuity is calculated using Method 1, and for all PEPFF members, a full annuity is available when age plus years of service equal at least 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

Members of the PFCF have the option to choose benefits identical to those of the PEPFF; otherwise, they are covered by the benefit provisions of the local relief association of which they were members at the time of consolidation. Members of local relief associations which consolidated with PERA prior to July 1, 1997 who choose benefits identical to the PEPFF will receive higher pension benefits with the 3.0 annual accrual rate, only upon local approval by their municipality. If approval is not granted by the municipality, those units will use a 2.9 percent annual accrual rate (if they approved the 1993 accrual rate increase) or a 2.74 annual accrual rate (if they did not approve the 1993 increase). Members of local relief associations which consolidated with PERA subsequent to June 30, 1997 who chose benefits identical to the PEPFF will automatically receive the higher benefits with a 3.0 percent annual accrual rate. Of the 2,487 members receiving benefits in the PFCF, eight are covered by the benefit provisions of their local relief association.

The benefit provisions stated in the preceding paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

b) Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Administrative costs are funded from investment income.

Public Employees Police and Fire Fund**

Police and Fire Consolidation Fund**

Current contribution rates for the PERA defined benefit plans are set by Minnesota Statutes, Chapters 353, 353A, 353B, and 356, and are shown in **Figure 2** below.

New legislation in 1997 increased contribution rates for the PERF. Beginning the first full payroll period after December 31, 1997, Basic members began contributing 8.75 percent of salary (an increase from 8.23 percent) and Coordinated members began contributing 4.75 percent of salary (an increase from 4.23 percent). Employers began contributing 11.43 percent of earnings for Basic members and 5.18 percent of earnings for Coordinated members, an increase of 0.70 percent.

Legislation in 1998 increased contribution rates for a small group of Coordinated members called correctional service employees. Effective July 1, 1998, those employees began contributing 4.96 percent of earnings and employers contributed 5.49 percent of earnings. Legislation in 1999 created a new plan for this group of members called the 'Correctional Plan' that will become effective in Fiscal Year 2000. Members of that plan will contribute 5.83 percent of earnings and employers will contribute 8.75 percent of earnings beginning July 1, 1999.

Periodic adjustments in employer and employee contribution rates for the PEPFF may result due to a unique "automatic stabilizer" created by the 1993 legislature. Beginning July 1, 1994, PERA's executive director will automatically decrease contribution rates to ensure full funding by the year 2020 if the actuarial valuation of the PEPFF shows the fund has no unfunded actuarial accrued liability and contribution sufficiencies exceeding 0.5 percent of covered payroll exist for four consecutive fiscal years. Under this legislation, contribution rates will decrease in Fiscal Year 2000. The employee contribution rate will decrease from 7.6 percent of

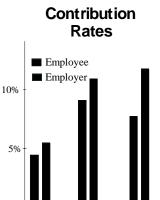
2.68%

0.43%

0.00%

11.40%

11.40%



Coordinated Basic

Current contribution rates for the **PERA** defined benefit plans are set by Minnesota Statutes, Chapters 353, 353A, 353B and 356.

Fig. 2 Retirement Plan Contribution Rates 6/30/99 Additional Employee Employer **Employer** Public Employees Retirement Fund: Basic Plan 8.75% 8.75% Coordinated Plan 4.75% 4.75%

NOTES: * An additional lump-sum municipal contribution is required and calculated each year in order to eliminate the unfunded liability in each plan by the year 2010.

7.60%

7.60%

^{**} Contribution rates will change for this fund effective July 1, 1999. The ne w employee rate will be 6.20% and the new employer rate will be 9.3%.

Notes

(Continued)

earnings to 6.2 percent. The employer contribution rate will decrease from 11.4 percent of earnings to 9.3 percent. These changes will be effective July 1, 1999.

Benefit Provisions and Contribution Rates — Defined Contribution Plan

The Public Employees Defined Contribution Plan (PEDCP) is a multiple-employer deferred compensation plan. The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal. (See Notes A.2 and A.3 for employer and employee membership requirements.) The plan is established and administered in accordance with Minnesota Statutes, Chapter 353D.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official or physician who decides to participate contributes 5 percent of salary, which is matched by the employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. Investment options include the Income Share, Growth Share, Common Stock Index, Bond Market, Money Market, International Share, and the Fixed Interest (formerly the Guaranteed Return) accounts. For administering the plan, PERA receives 2 percent of employer contributions and four-tenths of one percent (0.4%) of the assets in each member's account.

There is no vesting period required to receive benefits in the PEDCP. At the time of retirement or termination, PERA distributes the market value of a member's account to the member or transfers it to another qualified plan or individual retirement arrangement. Upon the member's death, PERA distributes the value of the account to the member's designated beneficiary.

The PEDCP is reported as a pension trust fund. Assets, including cash and investments totaling \$14,611,000 are presented at fair value at June 30, 1999. Obligations under the plan include an amount payable to other funds of \$67,000 to cover administrative expenses of the plan.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

1. Reporting Entity

PERA functions as a separate statutory entity. The association maintains rights to sue or be sued in its own name and to hold property in its own name. For financial reporting purposes, PERA is considered a pension trust fund of the State of Minnesota and is included in the State's Comprehensive Annual Financial Report with its fiduciary funds. PERA does not have any component units.

2. Basis of Accounting

PERA financial statements for all funds are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which they are earned and become measurable. Expenses are recorded when the liability is incurred. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

3. Investment Policies

a) Pursuant to Minnesota Statutes, Section 11A.04, the state's retirement fund assets are commingled in various pooled investment accounts administered by the State Board of Investment (SBI). As of June 30, 1999, the participation shares in the pooled accounts at fair value, excluding the Minnesota Post Retirement Investment Fund (MPRIF), totaled 22.40 percent for the PERF, 10.48 percent for the PEPFF and 2.43 percent for the PFCF. The funds' shares of net assets of the Minnesota Post Retirement Investment Fund, at fair value, totaled 29.77 percent, 4.84 percent and 4.34 percent, respectively.

PERA functions as a separate statutory entity. The association maintains rights to sue or be sued in its own name and to hold property in its own name. For financial reporting purposes, however, PERA is considered a pension trust fund of the State of Minnesota.

- b) Minnesota Statutes, Section 11A.24, broadly restricts retirement fund investments to obligations and stocks of United States and Canadian governments, their agencies and their registered corporations; short term obligations of specified high quality; restricted participation as a limited partner in venture capital, real estate or resource equity investments; restricted participation in registered mutual funds; and some qualified foreign instruments.
- c) Investments are categorized to give an indication of the level of risk that is assumed. Risk category 1 includes investments that are insured or registered, or for which the securities are held by the state or its agent in the state's name. Risk category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the state's name. Risk category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the state's name. PERA does not own any investments that are considered securities for purposes of assessing credit risk. All PERA investments are in the Minnesota State Board of Investment-administered pools or open-end mutual funds. These investments are not considered securities for purposes of credit risk classification. The investments in any one organization do not represent 5 percent or more of plan net assets for any of the plans PERA administers.
- d) Information about the primary government's (State of Minnesota) investments, including credit risk classification, can be obtained from the Minnesota Department of Finance, 400 Centennial Building, 658 Cedar Street, St. Paul, Minnesota 55155. Information on investment activity and a listing of specific investments owned by the pooled accounts can be obtained from the Minnesota State Board of Investment at Suite 200, Capitol Professional Office Building, 590 Park Street, St. Paul, Minnesota 55103.

Fig. 3 PERA Investments—All Funds (in Thousands)

(iii iiiousailus)							
	Cost June 30, 1999	Market Value June 30, 1999					
Pooled Accounts							
Active Domestic Equity	\$ 2,200,716	\$ 2,632,530					
Fixed Income	1,533,444	1,496,407					
Global Equity Pool	930,496	1,054,454					
Passive Domestic Equity	737,709	1,250,848					
Real Estate	199,161	250,145					
Resources Pool	69,237	51,272					
Venture Capital	346,049	330,495					
Total Pooled Accounts	\$ 6,016,812	\$ 7,066,151					
Short Term Pooled Cash	74,448	74,448					
Post Retirement Investment Account	5,805,881	7,422,311					
Cash and Investments for Deferred Comp. Benefits Totals	14,608 \$11,911,749	14,608 \$14,577,518					

4 Method Used to Value Investments

- a) Investments in the pooled accounts, including assets of the PEDCP, are reported at fair value. The schedule in Figure 3 provides a summary of cost and fair values of the investments as of 6/30/99 as reported on the Statement of Plan Net Assets. The fair value of investments is based upon valuations provided by a recognized pricing service. Securities traded on a national or international exchange are valued using the last reported trade price. Short-term investments are reported at cost, which approximates fair value. The fair value of real estate investments is based on independent yearly appraisals. No investments are reported at amortized cost since the fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940. Pooled accounts are not registered with the Securities and Exchange Commission. State Street, and consequently the investment vehicles sponsored by State Street (including SBI funds) are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of PERA's position in the pools is the same as the value of the pool shares. There was no involuntary participation in an external investment pool, and no income from one fund was assigned to another fund during the fiscal year.
- b) Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains and losses on sales or exchanges are recognized on the transaction date.
- c) The cost of security transactions is included in the transaction price.

 Administrative expenses of the State Board of Investment and investment management fees of the external money managers and the state's master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts. PERA's share of these expenses totaled \$5,428,000 for PERF, \$2,561,000 for PEPFF, and \$616,000 for PFCF.

5. Fixed Assets

Fixed assets are capitalized at the time of acquisition at cost. Depreciation is computed on a straight-line method over the useful life of the related assets. The estimated useful lives are three to 10 years for furniture and equipment, and three years for automobiles.

Pooled Accounts Investment Allocations

All Funds at Market 6/30/99



All PERA
investments are
in the Minnesota
State Board of
Investmentadministered
pooled investments. These
investments are
not considered
securities for
purposes of credit
risk classification.

Notes

(Continued)

PERA does not own specific securities, but instead owns shares in pooled funds invested by the State Board of Investments (SBI).

Since the

July 1, 1998 actuar -

ial valuation, there

were no changes in

actuarial assump-

tions of the PERF,

PEPFF, and the

impacted funding

PFCF which

Fixed assets are presented on the June 30, 1999 Statement of Plan Net Assets at historical cost, net of accumulated depreciation, as summarized in **Figure 4**.

6. Accrued Compensated Absences

Employees of PERA accrue vacation leave, sick leave and compensatory leave at various rates within limits specified in collective bargaining agreements. Accumulated amounts for compensated absences are accrued when incurred. Such leave is liquidated in cash primarily at the time of termination of employment.

7. Securities Lending

PERA does not own specific securities, but instead owns shares in pooled funds invested by the State Board of Investments (SBI). The SBI is authorized to use securities lending transactions in accordance with Minnesota Statutes, Chapter 356A.06, subd. 7 and has, pursuant to a Custodial Trust Agreement, authorized State Street Bank and Trust Company to act as agent in lending securities to broker-dealers and banks.

During the fiscal year State Street lent, on behalf of the SBI, certain securities held by State Street as custodian and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevokable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100% of the market value of the loaned securities.

The SBI did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf and State Street indemnified the SBI by agreeing to purchase replacement securities, or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. There were no such failures by any borrower to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or State Street.

During the fiscal year, the SBI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. On June 30, 1999 SBI had no credit risk exposure to borrowers. PERA's portion of the collateral held and the market value of securities on loan from the SBI as of June 30, 1999 were \$1,430,966,181 and \$1,389,235,218, respectively. Cash collateral is reported on the Statement of Plan Net Assets as an asset. Liabilities resulting from these securities lending transactions are also reported on the Statement of Plan Net Assets.

C. CHANGES IN ASSUMPTIONS AND PROVISIONS

1. Changes in Actuarial Assumptions and Methods

Since the July 1, 1998 actuarial valuation, there were no changes in actuarial assumptions of the PERF, PEPFF, and the PFCF which impacted funding costs. Unfunded actuarial accrued liabilities are calculated using the formula shown on **Figure 5**.

2. Changes in Benefit Provisions

1998 legislation improved disability benefits for a small group of PERF members who are classified as correctional service employees. This additional benefit was paid for with an increase in contribution rates for employees and employers beginning July 1, 1998, and does not materially effect the actuarial accrued liability of the PERF.

costs.	default. Borrowers were required to default. Borrowers were required to defaulteral for each loan in amounts equaless than 100% of the market value of the securities.
	The SBI did not impose any restrictions the fiscal year on the amount of the loan State Street made on its behalf and State indemnified the SBI by agreeing to pure replacement securities, or return the cash collateral in the event a borrower failed a loaned security or pay distributions the

Fig. 4	Fixed Asset	s
Asset		Value
Data Processing E	quipment	\$ 1, 514,115
Furniture and Fixt	ures	423,282
Office Equipment		108,003
Automobile		14,533
Total Fixed As	sets	\$ 2,059,933
Less: Accumulate	d Depreciation	(1,171,021)
Net Fixed Asse	ets	\$ 888,912

Legislation enacted in 1999 created a new "Correctional Plan" for the correctional service employees effective July 1, 1999. This new plan will be reflected in Fiscal Year 2000 financial statements, and does not have a material effect on the actuarial accrued liability of the PERF. Increased benefits will be paid for with increased contribution rates.

1999 legislation allows the 44 local relief associations that make up the PFCF to merge with the PEPFF in Fiscal Year 2000. Those local relief associations that are underfunded as of July 1, 1999 will be required to make a predetermined annual amortization payment to the PEPFF until the year 2010. Local relief associations that are sufficiently overfunded may receive a refund of excess assets when the merger occurs. All PFCF members who are covered by the benefit provisions and formulas of their local plans will be given the chance to elect to be covered by provisions identical with those of the PEPFF. Effective July 1, 1999 employee and employer contribution rates for the PEPFF will decrease.

- (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability by the dates required for full funding; and
- (c) an allowance for administrative expenses.

As shown in **Figure 6**, there was a funding surplus on June 30, 1999 of \$6,288,000 in the PERF and a surplus of \$30,872,000 in the PEPFF. In the PFCF, contributions actuarially required are equal to contributions actually made, due to the additional municipal contribution paid each year and included in the dollar value of the employer share of contributions actually made. Significant actuarial assumptions used to compute contribution requirements are listed in the notes to the schedules of trend information on page 30. Six-year historical trend information designed to provide information about PERA's funding progress and employer contributions can be found on pages 28 to 30.

Legislation enacted in 1999 created a new "Correctional Plan" for the correctional service employees effective July 1, 1999. This new plan will be reflected in Fiscal Year 2000 financial statements

D. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Minnesota Statutes, Chapters 353, 353A, 353B and 356 set the rates for employer and employee contributions. (See note A.4.b. for statutory rates.) Minnesota Statutes, Chapter 356.215, Subd.4(g), requires the PERF and the PEPFF to be fully funded by the year 2020. Minnesota Statutes, Chapter 353A.09, Subd.5(b)(1), requires full funding for the PFCF by December 31, 2010. As part of the annual actuarial valuation, PERA's actuary determines the sufficiency of the statutory contribution rates toward meeting the required full funding deadline. The actuary compares the actual contribution rate to an actuarially-derived "required" contribution rate. The required contribution rate consists of:

(a) normal costs based on entry age normal cost methods;

E. RESERVE ACCOUNTS

1. Minnesota Post Retirement Investment Fund (MPRIF) Reserve

a) For all retiring members, except those in the Police and Fire Consolidation Fund who have not elected to have their post-retirement adjustments determined by the MPRIF formula, the reserves required to pay the cost of the member's annuity are transferred to the MPRIF where the funds are invested. Increases in annuities are based upon earnings of the MPRIF, as defined in Minnesota Statutes, Section 11.18, Subd. 9.

Funding Surplus (Deficiency) (In Thousands)

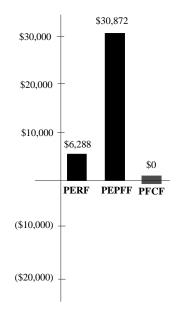


Fig. 5 Unfunded Actuarial Accrued Liability (in thousands)						
	PERF	PEPFF	PFCF			
Assets available for benefits at cost	\$8,265,003	\$2,522,518	\$1,071,377			
Plus 1/3 of unrealized capital gains (losses)	224,174	104,299	21,307			
Net Assets at actuarial cost	\$8,489,177	\$2,626,817	\$1,092,684			
Total required reserves	\$9,443,678	\$1,956,263	\$1,030,917			
Less net assets at actuarial cost	8,489,177	2,626,817	1,092,684			
Unfunded accrued liability (surplus assets) actuarial section	<u>\$ 954,501</u>	<u>\$ (670,554)</u>	\$ (61,767)			

Notes

(Continued)

reserves, annuitants and other individuals receiving benefits at May 31, 1998 are eligible to receive the following January 1, 2000 benefit increases:

Inflation Based Benefit Increase Investment Based Benefit Increase

1.9% 9.2436%

Total Benefit Increase

11.1436%

The Minnesota **Post Retirement Investment Fund** is a legally required reserve account, and is by definition fully funded.

- b) The MPRIF is a legally required reserve account, and is by definition fully funded. Participation in the MPRIF is shown at the actuarially determined required reserves level in accordance with Minnesota Statutes, Section 11A.18, Subd. 7. It includes a 6 percent assumed income distribution, in accordance with Minnesota Statutes, Section 11A.18, and any mortality gains or losses as determined by an independent actuary hired by the state legislature. As of June 30, 1999, the Public Employees Retirement Funds share of net assets of the MPRIF, at cost, is \$4,408,390,000 and at fair value is \$5,624,137,000. The Public Employees Police and Fire Fund's share of net assets of the MPRIF, at cost, is \$716,636,000 and at fair value is \$927,991,000. The Police and Fire Consolidation Fund's share of net assets of the MPRIF, at cost, is \$680,855,000 and at fair value is \$870,183,000.
- c) Beginning in fiscal year 1993, the MPRIF income available for distribution is determined using a post-retirement benefit increase formula based on total investment return rather than realized earnings. This formula contains both an inflation adjustment and an investment component. Stated as a percentage of eligible required

2. Member Reserves

Accumulated member contributions, without interest, less the amounts refunded, transferred to the MPRIF for current retirees, or paid for disability and survivor benefits are recorded in the Member Reserve. As of June 30, 1999, total member reserves, at fair value, for PERF, PEPFF, and PFCF were \$1,248,385,000, \$260,239,000, and \$45,620,000 respectively.

3. Benefit Reserves

Employer contributions and investment income are recorded in the Benefit Reserve. Administrative expenses, survivor and disability benefits, investment management fees, and interest paid to the MPRIF for late reserve transfers are paid from the Benefit Reserve. As of June 30, 1999, total benefit reserves, at fair value, for PERF, PEPFF, and PFCF were \$3,352,929,000, \$1,856,554,000 and \$407,488,000, respectively.

Fig. 6 Funding Surplus: (In Thousands)						
	PERF	% of Current Yr. Covered Payroll	PEPFF	% of Current Yr. Covered Payroll	PFCF	% of Current Yr. Covered Payroll
Contributions actually made:						
Employee share Employer share	\$158,475 173,370	4.79% 5.24%	\$30,897 46,280	7.60% 11.40%	\$ 3,429 11,569	7.60% 11.40%
Subtotal - Actual	\$331,845	10.03%	\$77,177	19.00%	\$14,998	19.00%
Contributions actuarially required: Normal Cost Supplemental contribution amortization	\$251,778	7.61%	\$82,091	20.21%	\$21,580	27.34%
of UAAL by July 1, 2020	66,501	2.01%	(36,354)	-8.95%		
Additional municipal contribution*					(6,860)	-8.69%
Allowance for administrative expenses	7,278	0.22%	568	0.14%	278	0.35%
Subtotal - Actuarially required	\$325,557	9.84%	\$46,305	11.40%	\$14,998	19.00%
Funding surplus (deficiency)	\$ 6,288	0.19%	\$30,872	7.60%	\$ 0	0.00%

^{*} NOTE: The additional municipal contribution (AMC) is the amount required to amortize the ini tial unfunded actuarial accrued liability over a 13-year period until December 31, 2010 and each year's actuarial gains and losses over a 15-year period. The \$6.86 million AMC amount is shown net of any local relief association's funding surplus. The dollar value of PFCF employer contributions actually made includes \$5.9 million received as the AMC during fiscal year 1999. However, the 11.4 percent emp Toyer contribution rate is determined without taking the AMC receipts into consideration.

F. OTHER NOTES

1. Cash

Cash on deposit consists of year-end receipts not processed as of the investment cutoff deadline on June 30. PERA cash funds are held in the state treasury, commingled with other state funds. Minnesota Statutes, Section 9.031, requires that deposits be secured by depository insurance or a combination of depository insurance and collateral securities held in the state's name by an agent of the state. Such insurance and collateral shall be in amounts sufficient to ensure that deposits do not exceed 90 percent of the sum of the insured amount and the market value of the collateral. Throughout fiscal year 1999, the combined depository insurance and collateral was sufficient to meet legal requirements and secure all PERA deposits.

2. Administrative Expenses

Administrative expenses of the Public Employees Retirement Association are paid from the Public Employees Retirement Fund. At year-end, a portion of the expenses are allocated to the Public Employees Police and Fire Fund and the Police and Fire Consolidation Fund, based on the percentage of transactions processed for each fund during the year. The PEDCP reimburses the PERF to the extent of fees collected for recovery of administrative costs. The applicable amounts are reported as expenses of the four funds and reported on the Statement of Plan Net Assets.

For fiscal year 1999, administrative expenses allocated to PERF, PEPFF, PFCF, and PEDCP totaled \$9,631,000, \$737,000, \$278,000, and \$67,000 respectively.

3. Operating Leases

PERA is committed under lease agreements for rental of office and storage space through June 30, 2001. For accounting purposes, these leases are considered operating leases. Lease expenditures for fiscal year 1999 totaled \$314,000. Future minimum rental payments required as of June 30, 1999 are as follows:

Fiscal Year Ended June 30	Amount
2000	\$309,631
2001	314,765
Total	\$ 624,396

4. Reporting Changes

The Police and Fire Consolidation Fund (PFCF) was created by the 1987 Legislature to authorize on a voluntary basis, any local police or salaried firefighters relief association and the respective municipality to effect the consolidation of the local relief association with PERA. At the end of fiscal year 1999, there are 44 local relief associations in the PFCF. One additional local relief association elected to consolidate with PERA in fiscal year 1999—Crookston Police. Net assets totaling \$1,998,826 were transferred from Crookston Police to PERA on the day of consolidation. These new assets were reported as "Other Additions" in the Statement of Changes in Plan Net Assets.

Administrative expenses of the **Public Employees** Retirement Association are paid from the **Public Employees Retirement Fund.** At vear-end, a portion of the expenses are allocated to the Public **Employees Police** and Fire Fund and the Police and Fire Consolidation Fund.

Required Supplementary Information

Schedule of Funding Progress (last six years, in thousands, unaudited)

PublicEmployees Retirement Fund

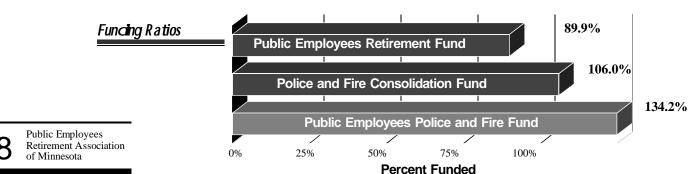
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/94	\$4,747,128	\$6,223,622	\$1,476,494	76.3%	\$2,557,522	57.7%
6/30/95	5,138,461	6,622,069	1,483,608	77.6%	2,679,069	55.4%
6/30/96	5,786,398	7,270,073	1,483,675	79.6%	2,814,126	52.7%
6/30/97	6,658,410	8,049,666	1,391,256	82.7%	2,979,260	46.7%
6/30/98	7,636,668	8,769,303	1,132,635	87.1%	3,271,737	34.6%
6/30/99	8,489,177	9,443,678	954,501	89.9%	3,302,808	28.93%

PublicEmployees Police and Fire Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/94	\$1,234,961	\$1,099,221	\$ (135,740)	112.3%	\$ 277,566	-48.9%
6/30/95	1,385,901	1,196,795	(189,106)	115.8%	293,919	-64.3%
6/30/96	1,633,010	1,334,202	(298,808)	122.4%	316,189	-94.5%
6/30/97	1,974,635	1,556,483	(418,152)	126.9%	346,319	-120.7%
6/30/98	2,337,313	1,741,344	(595,969)	134.2%	375,131	-158.9%
6/30/99	2,626,817	1,956,263	(670,554)	134.2%	352,066	-190.5%

Police and Fire Consolication Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/94	\$ 636,766	\$ 726,611	\$ 89,845	87.6%	\$ 56,445	159.2%
6/30/95	675,332	744,513	69,181	90.7%	53,278	129.8%
6/30/96	753,862	791,353	37,491	95.3%	52,194	71.8%
6/30/97	876,171	880,211	4,040	99.5%	50,274	8.0%
6/30/98	1,011,362	971,286	(40,076)	104.1%	49,117	-81.6%
6/30/99	1,092,684	1,030,917	(61,767)	106.0%	45,086	-137.0%



Required Supplementary Information

Schedule of Employer Contributions (last six years, in thousands, unaudited)

PublicEmployees Retirement Fund

Year Ended June 30	Actuarially Required Contribution Rate (A)*	Actual Covered Payroll (B)	Actual Member Contributions (C)	Annual Required Contribution [(A) x (B)] - (C)	Actual Employer Contribution	Percentage Contributed
1994	9.58%	\$2,557,522	\$112,940	\$132,071	\$119,390	90.40%
1995	9.76%	2,679,069	115,986	145,491	123,984	85.22%
1996	9.61%	2,814,126	121,525	148,913	129,738	87.12%
1997	9.75%	2,979,260	128,234	162,244	136,686	84.25%
1998	9.62%	3,271,737	140,385	174,356	151,499	86.89%
1999	9.63%	3,302,808	158,475	159,585	173,370	108.64%

PublicEmployees Police and Fire Fund

Year Ended June 30	Actuarially Required Contribution Rate (A)*	Actual Covered Payroll (B)	Actual Member Contributions (C)	Annual Required Contribution [(A) x (B)] - (C)	Actual Employer Contribution	Percentage Contributed
1994	17.45%	\$ 277,566	\$ 21,806	\$ 26,629	\$ 32,536	122.18%
1995	17.28%	293,919	22,356	28,433	33,548	117.99%
1996	16.49%	316,189	24,065	28,075	36,066	128.46%
1997	15.11%	346,319	26,354	25,975	39,508	152.10%
1998	15.69%	375,131	28,552	30,306	42,786	141.18%
1999	12.32%	352,066	30,897	12,478	46,280	370.89%

Year Ended June 30	Actuarially Required Contribution Rate (A)*	Actual Covered Payroll (B)	Actual Member Contributions (C)	Annual Required Contribution [(A) x (B)] - (C)	Actual Employer Contribution	Percentage Contributed
1994	32.28%	\$ 56,445	\$ 3,030	\$ 15,195	\$ 15,195	100%
1995	39.57%	53,278	4,237	16,849	16,849	100%
1996	36.69%	52,194	4,061	15,091	15,091	100%
1997	34.72%	50,274	3,950	13,509	13,509	100%
1998	8.53%	49,117	3,733	455	13,229	2,909%
1999	-4.20%	45,086	3,429	(5,323)	11,569	NA

^{*} For years prior to July 1997, the Actuarially required Contribution was not calculated according to the parameters of GASB Statement number 25. However, the actual employer contributions paid were actuarially determined in accordance with statutes and actuarial standards in effect at the time.

Required Supplementary Information Notes

(unaudited)

Notes to RequiredSupplementary Information

	Public Employees Retirement Fund	Public Employees Police & Fire Fund	Police & Fire Consolidation Fund
Valuation Date	6/30/99	6/30/99	6/30/99
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	21 years	21 years	11 years
Asset Valuation Method	Cost + 1/3 Unrealized Gains or Losses	Cost + 1/3 Unrealized Gains or Losses	Cost + 1/3 Unrealized Gains or Losses
Actuarial Assumptions:			
Investment Rate of Return	8.5%	8.5%	8.5%
Projected Salary Increases	5.0% - 7.7%	5.25% - 11.5%	5.25% - 11.5%
Assumed Inflation Rate	5.0%	5.0%	5.0%
Payroll Growth Rate	6.0%	6.0%	6.0%
Mortality Table - Active	1983 GAM Set Back 5 Years	1983 GAM Set Back 5 Years	1983 GAM Set Back 5 Years
Mortality Table - Retired	1983 GAM Set Forward 1 Year	1983 GAM	1983 GAM
Cost of Living Adjustment	No Assumption	No Assumption	No Assumption

Year 2000 Compliance Disclosure

In 1994 PERA began planning for the year 2000. Knowing that our mainframe computer and relate d legacy software would no longer function accurately once we hit January 1, 2000, we developed a project plan to make us Year 2000 (Y2K) compliant by 1999. Having passed that awareness stage, we entered the assessment stage to identify the software and hardware that needed to be upgraded. That stage was completed in fiscal year 98 for all our system s. We chose to replace 70 percent of our mainframe systems with new software and a client-server system that is Y2K compliant. We also chose to reengineer our major work processes as we rewrote software to become much more efficient and Y2K compliant at the same time.

As of June 30, 1999 about 65 percent of our software has been rewritten and tested and moved to cli ent-server. Our mainframe, which still supports another 30 percent of our software, has been upgraded and tested for Y2K compliance. The software on that mainframe is Y2K compliant or in the validation/testing stage. The remaining 5 percent of our programs are also in the validation/testing stage. Contracts committed to as of 6/30/99 for Y2K conversion amount to \$350,000 in fiscal year 2000. We plan to complete the testing stage by October 1999.

Schedule of Changes

In Plan Net Assets Public Employees Retirement Fund

	Member	Minnesota Post Retirement Investment Fund	Benefit	<u>Total</u>
<u>A chiltions</u>				
Contributions				
Employer	¢ 150.475		\$ 173,370	\$ 173,370
Plan member Total Contributions	\$ 158,475 \$ 158,475	\$ 0	\$ 173,370	\$ 331,845
Investments Investment income	\$ 0	\$ 587,754	\$ 465,369	\$ 1,053,123
Less investment expense Net Income from investing activities	\$ 0 \$ 0	\$ 587,754	(5,428) 459,941	(5,428) 1,047,695
From securities lending activities: Securities lending income Securities lending expenses:	ų v	Ψ 201,121	\$ 52,151	\$ 52,151
Borrower rebates Management fees Net income from securities lending			(45,920) (1,623) 4,608	(45,920) (1,623) \$ 4,608
Total Net Investment Income	\$ 0	\$ 587,754	\$ 464,549	\$ 1,052,303
Other additions Total Additions	\$ 7 \$ 158,482	\$ 587,754	\$ 2,398 \$ 640,317	\$ 2,405 \$ 1,386,553
Dealictions				
Benefits Refunds of contributions Administrative expenses	\$ 3,839 12,876	\$ 438,641	\$ 25,121 4,343 9,631	\$ 467,601 17,219 9,631
Other deductions	17	A 100 C11	1,601	1,618
Total Deductions	<u>\$ 16,732</u>	<u>\$ 438,641</u>	<u>\$ 40,696</u>	\$ 496,069
0 ther Changes in R கசு க				
Annuities Awarded Mortality Gain	\$ (44,463)	\$ 307,873 (72,181)	\$ (263,410) 72,181	\$ 0 0
Transfers Between Reserves Total Other Changes in Reserves	(762) \$ (45,225)	\$ 235,692	762 \$ (190,467)	\$ <u>0</u>
Net Increase	\$ 96,525	<u>\$ 384,805</u>	<u>\$ 409,154</u>	\$ 890,484
Net assets heldin trust for pension benefits				
Beginning of year	\$1,151,860	\$5,239,332	\$2,943,775	\$ 9,334,967
End of year	\$1,248,385	\$5,624,137	\$3,352,929	\$10,225,451

Schedule of Changes

In Plan Net Assets Public Employees Police & Fire Fund

	Member	Minnesota Post Retirement Investment Fund	Benefit	Total
A chitions				
Contributions Employer Plan member Total Contributions	\$ 30,897 \$ 30,897	\$ 0	\$ 46,280 \$ 46,280	\$ 46,280 30,897 \$ 77,177
Investments Investment income Less investment expense Net Income from investing activities	\$ 0 \$ 0	\$104,862 \$104,862	\$ 220,064 (2,561) \$ 217,503	\$ 324,926 (2,561) \$ 322,365
From securities lending activities: Securities lending income Securities lending expenses: Borrower rebates Management fees Net income from securities lending			\$ 15,081 (13,264) (475) \$ 1,342	\$ 15,081 (13,264) (475) \$ 1,342
Total Net Investment Income	\$ 0	\$104,862	\$ 218,84 5	\$ 323,707
Other additions Total Additions	20 \$ 30,917	<u>\$104,862</u>	\$\frac{290}{\$ 265,415}	310 \$ 401,194
Deductions				
Benefits Refunds of contributions Administrative expenses Other deductions Total Deductions	\$ 2,092 742 9 \$ 2,843	\$ 57,436 \$ 57,436	\$ 9,144 334 737 213 \$ 10,428	\$ 68,672 1,076 737 222 \$ 70,707
0 ther Changes in R ଇକ୍ୟ ଇ				
Annuities Awarded Mortality Loss	\$ (13,315)	\$100,117 1,987	\$ (86,802) (1,987)	\$ 0 0
Transfers Between Reserves Total Other Changes in Reserves	(19) \$ (13,334)	<u>\$102,104</u>	\$ (88,770)	<u>0</u>
Net Increase	<u>\$ 14,740</u>	<u>\$149,530</u>	\$ 166,217	\$ 330,487
Net assets heldin trust for pension benefits				
Beginning of year End of year	\$245,499 \$260,239	\$778,461 <u>\$927,991</u>	\$1,690,337 <u>\$1,856,554</u>	\$2,714,297 \$3,044,784

Schedule of Changes

In Plan Net Assets Police & Fire Consolidation Fund

A chitions	<u>Member</u>	Minnesota Post Retirement Investment Fund	<u>Benefit</u>	<u>Total</u>
Contributions Employer Plan member Total Contributions	\$ 3,429 \$ 3,429	\$ 0	\$ 11,569 \$ 11,569	\$ 11,569 3,429 \$ 14,998
Investments Investment income Less investment expense Net Income from investing activities	\$ 0 \$ 0	\$ 85,085 \$ 85,085	\$ 51,026 (616) \$ 50,410	\$ 136,111 (616) \$ 135,495
From securities lending activities: Securities lending income Securities lending expenses: Borrower rebates Management fees Net income from securities lending			\$ 6,795 (5,985) (211) \$ 599	\$ 6,795 (5,985) (211) \$ 599
Total Net Investment Income Other additions Total Additions	\$ 0	\$ 85,085 \$ 85,085	\$ 51,009 \$ 2,076 \$ 64,654	\$ 136,094 \$ 2,077 \$ 153,169
Benefits Refunds of contributions Administrative expenses	\$ 1,833	\$ 58,098	\$ 10,849 30 278	\$ 70,780 30 278
Other deductions Total Deductions	\$ 1,833	\$ 58,098	188 § 11,345	\$\frac{188}{\\$71,276}
Annuities Awarded Mortality Loss Transfers Between Reserves Total Other Changes in Reserves Net Increase	\$ (4,555) (3) \$ (4,558) \$ (2,961)	\$ 78,167 598 \$ 78,765 \$105,752	\$ (73,612) (598) 3 \$ (74,207) \$ (20,898)	\$ 0 0 0 \$ 0 \$ 81,893
Net assets heldin trust for pension benefits Beginning of year End of year	\$ 48,581 <u>\$ 45,620</u>	\$764,431 \$870,183	\$428,386 <u>\$407,488</u>	\$1,241,398 <u>\$1,323,291</u>

Schedule of Investment Expenses

For the Fiscal Year Ended June 30, 1999 (in thousands)

	Public Employees Retirement <u>Fund</u>	Public Employees Police and Fire Fund	Police and Fire Consolidation Fund	Total (Memorandum Only)
Outside Money Managers-Equities	\$4,318	\$2,037	\$485	\$6,840
Outside Money Managers-Bonds	890	420	100	1,410
Minnesota State Board of Investment	192	91	28	311
Financial Control Systems	28	13	3	44
Total	\$5,428	<u>\$2,561</u>	<u>\$616</u>	\$8,605

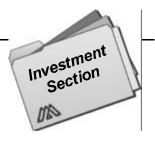
Schedule of Commissions and Payments to Consultants

Individual or Firm Name	Nature of Service	Fee Paid
KPMG Peat Marwick LLP	System Development	\$2,350
Ciber Inc.	System Development	696
Survey & Ballot Systems Inc	Management	182
Imerge Consulting	System Development	164
Benefacts, Inc.	Management	146
William M. Mercer Inc	Actuarial	112
GE Capital Info. Tech. Solutions	System Development	46
Richards & Tierney	Investment	42
Milliman & Robertson Inc.	Actuarial	36
SGS Group Inc.	Management	23
Segal Company	Legal	17
Novaeon Inc.	Management	16
Financial Control	Investment	10
Acrew LLC	Medical Services	10
Tautges Redpath & Co. Ltd.	Management	9
Pension Benefit Info.	Management	8
Kern DeWenter Viere Ltd.	Management	3
Independent Medical Consultants (6)	Medical Services	3
Kusske Financial Mgmt.	Management	2
State of Minnesota —		
Department of Health	Medical Services	75
Attorney General	Legal	67
Legislative Auditor	Auditing	49
Management Analysis Division	System Development	15
Administrative Law Judge	Medical Services	11
Total		\$4,092

Schedule of Administrative Expenses

Personal Serv ices:		
Staff Salaries	\$3,855	
Part-Time, Seasonal Labor	154	
Other Benefits	89	
Total Personal Services		\$ 4,098
Professional Services:		
Actuarial	\$ 148	
Audit Legal	49 84	
Investment Consultants	52	
Management Consultants	389	
Medical Evaluations	99	
System Development	3,271	
Total Professional Services		4,092
Com m unication:		
Printing	\$ 201	
Mail & Telephone Services	648	
Total Communication		849
Rentals & Waintenance: Office Space	\$ 316	
Repairs & Maintenance	114	
System Services	167	
Total Rentals & Maintenance		597
		371
0 th <i>e</i> r:		
Operating Costs	\$ 37	
In-State Travel	25	
Out-State Travel	22	
Employee Development	44	
Supplies & Materials	637	
Indirect Costs	93	
Depreciation	219	
Total Other		1,077
Total Administrative Expense		\$10,713
A llocation of A ch inis trativ e Expense:		
Defined Benefit Plans		
Public Employees Retirement Fund		\$ 9,631
Public Employees Police and Fire Fund		737
Police and Fire Consolidation Fund		278
Defined Contribution Plans		
Public Employees Defined Contribution Plan		67
Total Administrative Expenses		\$10,713
-		

Investment Report



MINNESOTA STATE BOARD OF INVESTMENT



Board Members:

Governor Jesse Ventura

State Auditor Judi Dutcher

State Treasurer Carol C. Johnson

Secretary of State Mary Kiffmeyer

Attorney General Mike Hatch

Executive Director:

Howard J. Bicker

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An Equal Opportunity Employer

Investment Authority

The assets of the Public Employees Retirement Association are invested under the direction and authority of the State Board of Invest - ment (SBI) in accordance with Minnesota Statutes, Chapters 11A and 356A. The SBI is made up of the State Governor, State Auditor, State Treasurer, Secretary of State, and the Attorney General. The Legisla - ture has also established a 17-member Investment Advisory Council to advise the SBI and its staff on investment-related matters. The Executive Director of PERA is a permanent member of this Council.

Investment Policy

Investment policy states that the SBI will operate within standard investment practices of the prudent person. The SBI is to "exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for invest - ment, considering the probable safety of their capital as well as the probable income to be derived therefrom." The SBI is authorized to own government obligations, corporate obligations, various short-term obligations, corporate stocks, venture capital interests, mutual funds, resource investments, and real estate interests subject to specific pa - rameters. Above all, pension fund assets are to be invested for the exclusive benefit of the members of the fund.

Investment Objectives

Pension fund assets are managed and accounted for separately in the Basic Funds and the Post Fund. The SBI reviews the performance of all the assets in the Combined Funds.

Pension contributions of PERA members are invested in the **Basic Funds** along with pension contributions from active members in seven other statewide retirement funds. PERA does not own any underlying assets, but instead owns a participation in these pooled Basic Funds. Because these assets normally accumulate in the Basic Funds for thirty to forty years, SBI's objective is to take advantage of the long investment time horizon offered by equities and alternative assets in order to meet its actuarial return target of 8.5 percent per year and ensure that sufficient funds are available to finance promised benefits at the time of retirement.

When a member retires, PERA transfers assets on behalf of the member to the **Minnesota Post Retirement Investment Fund** (**MPRIF**). The assets of the Post Fund, which include the eight plans which participate in the Basic Funds as well as the Legislative and Survivors Retirement Fund, finance monthly annuity payments paid to retirees. Investments in the Post Fund are generally invested a bit more conservatively, but still invest heavily in equities to take advantage of the 15-20 year time horizon associated with the length of time a typical retiree can be expected to draw benefits. The actuarial return target for the Post Fund is 6 percent.

The **Combined Funds**, while not existing under statute, represents the assets of both the active and retired public employees who

participate in the defined benefit plans administered by PERA, the Minnesota State Retirement System, and the Teachers Retirement Association. They are used by the SBI for comparison purposes only, since most public pension plans do not separate the as sets of their active employees and retirees. The long term objectives of the Combined Funds are: (1) provide returns that are 3-5 percentage points greater than inflation over the latest 10-year period; (2) outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined funds over the latest 5-year period; and (3) provide returns that are ranked in the top half of a universe of public and corporate plans over the latest 5-year period. As of June 30, 1999 the Combined Funds returned 10.5 percentage points above the CPI over the last 10 years, outperformed the Composite Index by 0.4 percentage points over the past five years, and ranked in the 34th percentile, above the median fund in the Trust Universe Comparison Service.

Investment Presentation

Data reported in the investment section of this CAFR is presented in conformance with the presentation standards of the Association for Investment Management and Research (AIMR). Investment returns were prepared using a time-weighted rate of return methodology in accordance with those standards.

Howard Bicker Executive Director State Board of Investment

Howard Bicker

Investment Results

INV ESTIVIENT RETURNS BY SECTOR

Performance of Asset Pools (Net of Fees)

	Rates of Return (Annualized)			
	FY 1999	3-Year	5-Year	
Domestic Stock Pool	18.1%	26.0%	25.4%	
Wilshire 5000	19.6	25.8	25.7	
Bond Pool	2.7%	7.6%	8.1%	
Lehman Agg.	3.1	7.2	7.8	
International Stock Pool	9.3%	9.3%	9.5%	
Composite Index	10.6	7.4	7.4	
Real Estate Pool (Basic Funds Only)	6.7%	17.5%	12.3%	
Private Equity Pool (Basic Funds Only)	(0.1)%	24.1%	23.3%	
Resource Pool (Basic Funds Only)	(29.2)%	7.5%	9.8%	
Yield Oriented Pool (Post Fund Only)	15.5%	11.7%	11.8%	

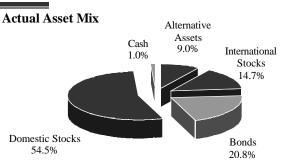
Asset Allocation (at June 30, 1999)*

Asset allocation will have a dominant effect on returns. SBI has focused considerable attention on the selection of the appropriate long-term asset allocation policy for the Basic and MPRIF funds.

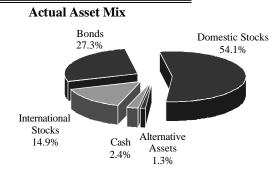
Dasic and Wil Ivii Tunds					
	Ba	sic	MPRIF		
Investment Type	Actual Asset <u>Mix</u>	Long-term Policy Target	Actual Asset <u>Mix</u>	Long-term Policy Target	
Domestic Stocks	54.5%	45.0%	54.1%	50.0%	
International Stocks	14.7	15.0	14.9	15.0	
Bonds	20.8	24.0	27.3	27.0	
Alternative Assets**	9.0	15.0	1.3	5.0	
Cash	1.0	1.0	2.4	3.0	
Total	100.0%	100.0%	100.0%	100.0%	

^{*} Source: Minnesota State Board of Investment (SBI) FY 1999 Annual Report.

BasicFund



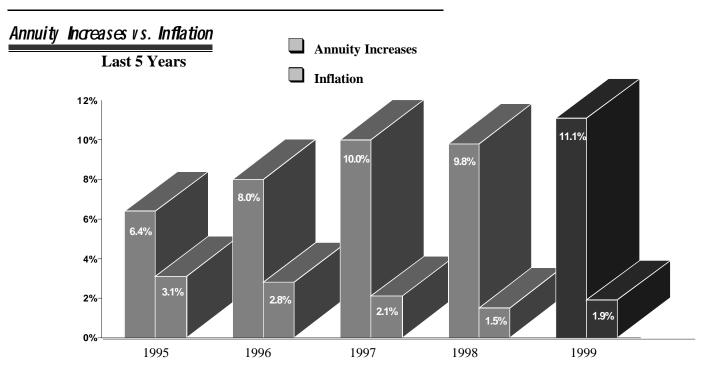
Post Retirem ent Investment Fund



The charts above shows the asset allocation of the Basic Funds and the MPRIF at June 30, 1999.

^{**} Alternative assets include real estate, venture capital and resource (oil, gas, etc.) funds.

Investment Results



Increases awarded to PERA retirees under the MPRIF have outpaced inflation each of the past five years. Increases and inflation are both measured as of June 30, the end of PERA's fiscal year. Increases are effective January 1 of the following year.

FundPerform ance

	R	ates of Return (Annualized	()
Fund	FY 1999	3-Year	5-Year
Basic Funds (Active Accounts)	11.3%	18.3%	17.9%
Basic Composite Market Index	12.7	17.9	17.7
MPRIF Fund (Retiree Accounts)	12.1%	17.4%	17.2%
MPRIF Composite Market Index	13.2	16.6	16.7
Combined Funds (Active/Retiree)*	11.7%	17.9%	17.6%
Combined Composite Market Index	12.9	17.3	17.2

^{*} Percentages are net of all management fees. Amounts include Basic and MPRIF funds.

Note: All composite indices are composed of the following market indicators, weighted accord ing to asset allocation: Stocks—Wilshire 5000; Int'l. Stocks—EAFE; Domestic Bonds—Lehman Aggregate; Alternative Assets—Wilshire Real Estate Index, Venture Capital Funds, Resource Funds; Unalloc ated Cash—91 Day T-Bills.

List of Largest Assets Held

June 30, 1999

Composite Holdings of Top Ten Equities (by Market Value)

	% of
Security	Portfolio
Microsoft Corp.	1.72%
General Electric Co.	1.39
Cisco Systems Inc.	1.07
Intel Corp	1.01
Wal Mart Stores Inc.	0.88
Merck & Co. Inc.	0.86
Citigroup Inc.	0.80
International Business Machine	0.79
Lucent Technologies Inc.	0.77
Exxon Corp.	0.76

Composite II oldings of Top Ten BondII oldings (by Market II alue)

		Maturity		% of
Security	Coupon	Date	Rating	Portfolio
FNMA	6.00%	07/01/2029	AAA	0.83%
FNMA	7.00	07/01/2029	AAA	0.44
FNMA	6.50	07/01/2029	AAA	0.42
FHLMC	6.00	07/01/2029	AAA	0.28
FHLMC	7.50	07/01/2029	AAA	0.27
United States Treasury Notes	3.38	01/15/2007	AAA	0.25
United States Treasury Notes	6.50	05/31/2001	AAA	0.23
FHLMC	6.50	07/01/2029	AAA	0.23
United States Treasury Bonds	8.50	02/15/2020	AAA	0.23
United States Treasury Bonds	3.63	04/15/2028	AAA	0.20

PERA's assets are commingled in various pooled investment accounts administered by the State Board of Investment. PERA does not own specific values of the underlying assets. The percentages shown are those of the total pooled accounts. Information on investment activity, a listing of specific investments owned by the pooled accounts and a schedule of fees and commissions can be obtained from the Minnesota State Board of Investment.

Investment Summary at Cost*

For the Fiscal Year Ended June 30, 1999 (in thousands)

PublicEmployees Retirement Fund

	Cost June 30, 1998	Total Acquisitions	Total Dispositions	Cost June 30, 1999
Pooled Accounts				
External Domestic Equity	\$1,245,216	\$221,974	\$ 74,174	\$1,393,016
Passive Domestic Eq Pool	437,583	70,392	40,990	466,985
Global Equity Pool	564,820	38,751	13,763	589,808
Fixed Income	905,583	95,953	30,132	971,404
Real Estate	120,982	18,768	13,669	126,081
Resources Pool	33,938	12,679	2,826	43,791
Venture Capital	176,461	117,168	75,327	218,302
Total Pooled Accounts	<u>\$3,484,583</u>	<u>\$575,685</u>	<u>\$250,881</u>	\$3,809,387

PublicEm p loy ess Po lice and Fire Fund

	Cost June 30, 1998	Total Acquisitions	Total Dispositions	Cost June 30, 1999
Pooled Accounts	<u> </u>	11044151010115	<u> </u>	<u> </u>
External Domestic Eq Pool	\$ 588,482	\$102,670	\$ 38,783	\$ 652,369
Passive Domestic Eq Pool	206,248	33,598	21,986	217,860
Global Equity Pool	266,813	20,217	10,935	276,095
Fixed Income	427,726	48,583	21,364	454,945
Real Estate	57,549	8,972	7,109	59,412
Resources Pool	16,006	5,980	1,458	20,528
Venture Capital	83,493	38,779	19,813	102,459
Total Pooled Accounts	\$1,646,317	\$258,799	\$121,448	\$1,783,668

	Cost June 30, 1998	Total Acquisitions	Total Dispositions	Cost June 30, 1999
Pooled Accounts				
External Domestic Eq Pool	\$ 148,566	\$ 24,687	\$ 17,922	\$ 155,331
Passive Domestic Eq Pool	53,392	5,979	6,507	52,864
Global Equity Pool	66,158	4,012	5,577	64,593
Other Equity	0	225	225	0
Fixed Income	106,156	10,453	9,514	107,095
Real Estate	14,132	1,840	2,304	13,668
Resources Pool	4,115	1,359	556	4,918
Venture Capital	22,472	8,841	6,025	25,288
Total Pooled Accounts	\$ 414,991	\$ 57,396	\$ 48,630	\$ 423,757

Investment Summary at Market Value*

For the Fiscal Year Ended June 30, 1999 (in thousands)

PublicEmployees Retirement Fund

	Market Value June 30, 1998	Market Value June 30, 1999	Percent of Portfolio
Pooled Accounts	·		
External Domestic Equity	\$1,460,953	\$1,669,972	37%
Passive Domestic Eq Pool	681,366	793,376	18
Global Equity Pool	601,741	668,987	15
Fixed Income	919,439	949,122	21
Real Estate	154,102	158,519	3
Resources Pool	34,227	32,477	1
Venture Capital	215,345	209,455	5
Total Pooled Accounts	\$4,067,173	\$4,481,908	<u>100%</u>

PublicEm p loy ess Po lice and Fire Fund

	Market Value June 30, 1998	Market Value June 30, 1999	Percent of Portfolio	
Pooled Accounts				
External Domestic Eq Pool	\$ 689,729	\$ 781,098	37%	
Passive Domestic Eq Pool	321,705	371,052	18	
Global Equity Pool	284,048	312,927	15	
Fixed Income	434,007	443,973	21	
Real Estate	72,796	74,229	3	
Resources Pool	16,163	15,229	1	
Venture Capital	101,729	98,057	5	
Total Pooled Accounts	<u>\$1,920,177</u>	\$2,096,565	<u>100%</u>	

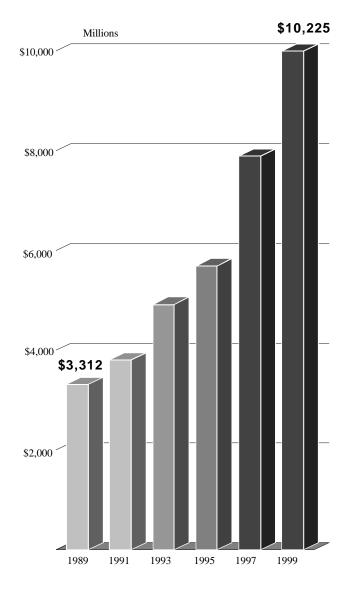
	Market Value June 30, 1998	Market Value June 30, 1999	Percent of Portfolio
Pooled Accounts	· · · · · · · · · · · · · · · · · · ·		
External Domestic Eq Pool	\$ 169,905	\$ 181,460	37%
Passive Domestic Eq Pool	79,375	86,420	18
Global Equity Pool	69,778	72,540	15
Other Equity	0	0	0
Fixed Income	106,577	103,312	21
Real Estate	18,225	17,397	3
Resources Pool	4,026	3,566	1
Venture Capital	25,363	22,983	5
Total Pooled Accounts	<u>\$ 473,249</u>	<u>\$ 487,678</u>	100%

^{*} Figures shown are for PERA's active pooled funds.

Market Value of Assets

Market V alue of Assets

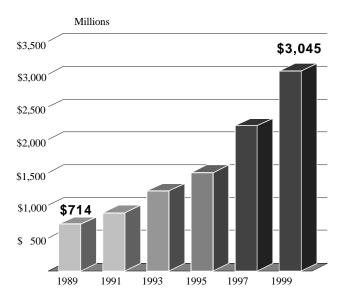
Public Employees Retirement Fund



Over the past 10 years, the market value of the Public Employees Retirement Fund has grown from \$3.3 billion in 1989 to \$10.2 billion in 1999.

Market V alue of Assets

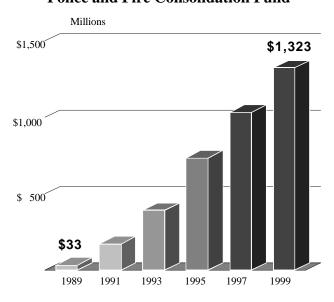
Police and Fire Fund



Market value of Police and Fire Fund assets increased from \$714 million in 1989 to \$3.0 billion in 1999.

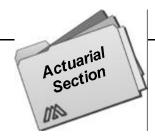
Market V a lue of Assets

Police and Fire Consolidation Fund



Created in 1988, the Police and Fire Consolidation Fund has seen its assets climb to over \$1.3 billion in just 11 years.

Certification Letter





Actuaries and Consultants
Suite 400, 15800 Bluemound Road, Brookfield, Wisconsin 53005-6069

November 29, 1999

Board of Trustees Public Employees Retirement Association of Minnesota 514 St. Peter Street Suite 200 St. Paul, Minnesota 55102-1090

Members of the Board:

We have completed our annual actuarial valuation of the Public Employees Retirement Association of Minnesota to test how well the fundamental financing objectives are be ing achieved and to determine the actuarial status of the Public Employees Retirement Fund (PERF), the Public Employees Police and Fire Fund (PEPFF), and the Police and Fire Consolidation Fund (PFCF) as of June 30, 1999.

The fundamental financing objectives of the funds are to establish contribution rat es which, when expressed as a percentage of active member payroll, will remain approxi - mately level from generation to generation and meet the required deadline for full funding .

The results of the valuation indicate that the PERF, PEPFF and the PFCF are either ahead of or on schedule to meet the required dates for full funding.

The actuarial valuation was based upon applicable GASB 25 and statutory provisions and the Standards for Actuarial Work in effect on June 30, 1999. In the aggregate, the basic financial and membership data provided to us by the association office appears reasonable in comparison to last year, and we have relied upon the data as submitted in performing the actuarial valuation and preparing trend data schedules. It is our understanding that the data has subsequently been audited with no significant changes made. We are responsible for providing the numbers for each of the supporting schedules in the Actuary section of PERA's comprehensive annual financial report. We are also responsible for preparing both of the Required Supplementary Information schedules found in the Financial section of this annual report.

The three valuations were performed by using the actuarial cost methods and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state statute. All other assumptions are based on actual experience with changes recommended by the actuary, adopted by the PERA Board and approved by the Legislative Commission on Pensions and Retirement.

Though not reflected in this valuation, there will be a plan provision change effective July 1, 1999. A new defined benefit plan, called the Local Government Correction Service Retirement Fund, has been created for roughly 2,000 correctional officers who were for merly in the PERF. Enhanced benefits will be paid for by an increase in contribution rates for that group of members. Funding for the PFRF will not be impacted.

The unfunded actuarial accrued liability was impacted by two changes in the PFCF. The benefit accrual rate in - creased from 2.9 percent to 3.0 percent for three local relief associations which consolidated prior to July 1, 1998 and whose city councils adopted a resolution accordingly. One new account, Crookston Police, was added to the PFCF during the fiscal year. This account increased the unfunded actuarial accrued liability by less than \$200,000.

Effective July 1, 1999, the 44 accounts in the PFCF will be terminated. Assets and liabilities will be transferred into the PEPFF. This merger will reduce the total unfunded actuarial accrued liability by roughly \$4.3 million

The following table shows the date for full funding for each of the three plans and the funding percentage for the 1999 valuation. The funding percentage expresses current assets as a percentage of the actuarial accrued liability determined on the entry age normal cost method.

Fund	Funding Date	Funding Percentage
PERF	2020	89.9%
PEPFF	2020	134.2%
PFCF	2010	106.0%

We certify that to the best of our knowledge and belief, this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

Respectfully submitted,

Thomas K. Custis, F.S.A. Consulting Actuary

Summary of Actuarial Assumptions and Methods

Public Employees Retirement Fund

Actuarial Cost Method Entry Age Normal, with

costs allocated as a level percentage of payroll. Actuarial gains (losses) reduce (increase) the unfunded actuarial accrued liability.*

Actuarial Assumptions

1. a. Retirement Age 64. In addition,

assumes 50% of employees retire when age plus

service totals 90.†††

b. Mortality 1983 Group Annuity

Mortality Table set forward one year for retirees and back five for active members.‡‡‡

c. Mortality-Disabled 1965 Railroad Workers

Select Mortality.††

d. Disability Graded rates. †

(Table on following page shows sample values.)

e. Termination Graded rates. **

(Table on following page shows sample values.)

2. Allowance for Expenses .17% of payroll.‡‡

3. Asset Valuation Cost plus 1/3 unrealized

gains or losses.†

4. Investment Return 8.5% compounded annually,

preretirement .‡‡

6% compounded annually,

post-retirement.‡

5. Earnings Progression Age related table which

incorporates a 5% base inflation assumption. ‡‡‡

(Table on following page shows sample values.)

6. Active Member 6.0% per year.†

Payroll Growth

PublicEmployees P & F Funct

Actuarial Cost Method Entry Age Normal, with

costs allocated as a level percentage of payroll. Actuarial gains (losses) reduce (increase) the unfunded actuarial accrued liability. *

Actuarial Assumptions

1. a. Retirement Age related table from

age 50 to 70.‡

b. Mortality 1983 Group Mortality Table

set back five years for active

members.‡

c. Mortality-Disabled 1965 Railroad Workers

Select Mortality.††

d. Disability Graduated rates. †

(Table on following page shows sample values.)

e. Termination Graduated rates. **

(Table on following page shows sample values.)

2. Allowance for Expenses .12% of payroll.‡‡

3. Asset Valuation Cost plus 1/3 unrealized

gains or losses.†

4. Investment Return 8.5% compounded annually,

preretirement.‡‡

6% compounded annually,

post-retirement.

5. Earnings Progression Age related table which

incorporates a 5% base inflation assumption.‡

(Table on following page shows sample values.)

6. Active Member 6.0% per year.‡

Payroll Growth (Reflects group size and inflation)

Police and Fire Consolication Fund

For members selecting benefit provisions of the Public Employees Police and Fire Fund (PEPFF), the actuarial cost method and actuarial assumptions are the same as those indicated above for the PEPFF. For members selecting benefit provisions of the local relief association, the actuarial assumptions used for retirement age and post-retirement inc reases vary depending upon the provisions of the particular relief association.

Adoption Dates

Actuarial Tables

June 30, 1999

Schedule of Recommended

vs. Actual Contribution Rates (Expressed as a percent of Mem ber Pay roll)

	Ac	tual Contribution F	Rate	Recommended
	Member	Employer	Rate*	
Public Employees Retirement Fund	4.8%	5.2%	10.0%	9.84%
Public Employees Police and Fire Fund	7.6	11.4	19.0	11.40
Police and Fire Consolidation Fund	7.6	11.4	19.0	19.00**

Sam p le Annual Rates per 100 Em p loy ees

Public Employees Retirement Fund

Public Employee Police and Fire Fund & Police and Fire Consolidation Fund

	Mo	ortality	Disability	Term	ination	Salary		Mo	ortality	Disability	Termination	Salary
Age	Male	Female	All Employees	Male	Female	Increase	Age	Male	Female	All Employees	All Employees	Increase
20	.03	.01	.09	25.42	29.13	7.7%	20	.03	.01	.11	8.59	11.5%
25	.04	.02	.10	15.36	19.42	7.6	25	.04	.02	.13	4.63	9.5
30	.05	.03	.11	10.18	13.94	7.2	30	.05	.03	.16	2.80	8.0
35	.06	.03	.12	7.19	10.53	6.9	35	.06	.03	.19	1.83	7.0
40	.09	.05	.15	5.32	8.26	6.4	40	.09	.05	.26	1.26	6.0
45	.14	.07	.22	4.08	6.67	6.2	45	.12	.07	.36	.91	5.5
50	.22	.10	.33	3.21	5.50	5.7	50	.22	.10	.69	.50	5.0
55	.39	.16	.58	1.95	4.78	5.7	55	.39	.16	1.35	.11	5.0
60	.61	.25	1.18	_	_	5.0	60	.61	.25	_	_	5.0
65	.91	.42	_	_	_	5.0	65	.92	.42	_	_	5.0

^{*} The recommended rates scheduled above represent the required rates for fiscal year 1999 contributions as reported in the July 1, 1998 actuarial valuation reports.

^{**} Plus an additional dollar amount determined annually to amortize the unfunded actuarial accrued liability by July 1, 2010, and to amortize any actuarial losses or gains over a 15-year period. The fiscal 1999 amortization amount, as reported in the July 1, 1998 actuarial valuation report, is (\$6,860,502).

Solvency Test

Last Six Years (in thousands)

PublicEm p loy ess Retirem ent Funci

	Actu	arial Accrued Liabi	ility For:		Portio	n of Accru	ied
Valuation			Active Members (Employer Financed)	Valuation	Liabilities Covered by Valuation Assets		
Date	Contribution (1)	Beneficiaries(2)	Portion (3)	Assets	1	2	3
6-30-94	\$ 834,418	\$3,027,086	\$2,362,118	\$4,747,128	100%	100%	37.5%
6-30-95	916,109	3,170,343	2,535,617	5,138,461	100	100	41.5
6-30-96	992,911	3,458,961	2,818,201	5,786,398	100	100	47.4
6-30-97	1,074,489	3,795,580	3,179,597	6,658,410	100	100	56.2
6-30-98	1,151,861	4,307,232	3,310,210	7,636,668	100	100	65.8
6-30-99	1,248,385	4,788,636	3,406,657	8,489,177	100	100	71.9

PublicEm p loy es Police and Fire Fund

	Actu	lity For:			on of Acc		
Valuation	Active Member	Current Retirees and	Active Members (Employer Financed)	Valuation		lities Cov aluation A	
Date_	Contribution (1)	Beneficiaries(2)	Portion (3)	Assets	1 by va	2	3
6-30-94	\$ 180,499	\$364,944	\$ 553,778	\$1,234,959	100	100	124.5%
6-30-95	196,185	409,005	591,605	1,385,901	100	100	132.0
6-30-96	212,498	473,265	648,439	1,633,010	100	100	146.1
6-30-97	230,492	567,300	758,691	1,974,635	100	100	155.1
6-30-98	245,499	711,514	784,331	2,337,313	100	100	176.0
6-30-99	260,239	867,514	828,510	2,626,817	100	100	180.9

	Actu	arial Accrued Liabi		Porti	on of Acc	rued	
Valuation	Active	Current Retirees	Walnation		ilities Cov		
Valuation Date	Member Contribution (1)	and Beneficiaries(2)	(Employer Financed) Portion (3)	Valuation Assets	1 by v	aluation A	assets 3
6-30-94	\$ 49,176	\$424,962	\$ 252,473	\$ 636,766	100	100	64.4%
6-30-95	50,258	441,187	245,068	675,331	100	100	71.8
6-30-96	51,545	483,250	256,558	753,862	100	100	85.4
6-30-97	51,500	583,784	244,926	876,171	100	100	98.3
6-30-98	48,581	702,706	219,999	1,011,362	100	100	118.2
6-30-99	45,620	777,960	207,337	1,092,684	100	100	129.0

Schedule of Active Member Valuation Data

Last Six Years

PublicEm p loy ees Retirem ent Funcl

Valuation Date	Number	Valuation Payroll	Annual Average Pay	% Increase in Average Pay
6-30-94	120,199	\$2,595,000,000	\$21,592	2.5%
6-30-95	126,612	2,768,000,000	21,858	1.2
6-30-96	129,431	2,901,000,000	22,413	2.5
6-30-97	130,865	3,036,000,000	23,199	3.5
6-30-98	136,166	3,199,000,000	23,494	1.3
6-30-99	139,808	3,419,000,000	24,455	4.1

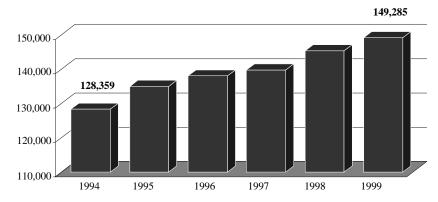
PublicEm p loy ess Police and Fire Fund

Valuation Date	Number	Valuation Payroll	Annual Average Pay	% Increase in Average Pay
6-30-94	7,043	\$ 277,269,000	\$39,368	5.0%
6-30-95	7,380	294,861,000	39,954	1.5
6-30-96	7,680	316,332,000	41,189	3.1
6-30-97	8,079	347,187,000	42,974	4.3
6-30-98	8,499	375,460,000	44,177	2.8
6-30-99	8,778	403,619,000	45,980	4.1

Police and Fire Consolication Fund

Valuation <u>Date</u>	Number	Valuation _Payroll	Annual Average Pay	% Increase in Average Pay
6-30-94	1,117	\$ 56,445,000	\$50,533	13.2%
6-30-95	1,061	53,278,000	50,215	(.6)
6-30-96	1,003	52,194,000	52,038	3.6
6-30-97	933	50,274,000	53,884	3.5
6-30-98	797	45,027,000	56,496	4.8
6-30-99	699	41,753,000	59,733	5.7

Retirem ent FunciActiv e Mem bers



The number of active employees participating in PERA's three defined benefit plans has increased 16 percent during the past six fiscal years.

Schedule of Retirees and Beneficiaries

PublicEm p loy ees Retirem ent Fund

			Year-E	and Total	% Increase	Average
Year <u>Ended</u>	Number <u>Added</u>	Number Removed	Number	Annual Allowances	in Annual <u>Allowances</u>	Annual Allowances
6-30-94	3,745	1,337	36,376	\$269,786,000	15.4%	\$ 7,417
6-30-95	2,701	1,371	37,706	284,824,000	5.6	7,554
6-30-96	3,090	1,416	39,380	311,243,000	9.3	7,904
6-30-97	2,917	1,483	40,814	367,718,000	18.1	9,010
6-30-98	3,805	1,477	43,142	421,981,000	14.8	9,781
6-30-99	3,714	1,597	45,259	475,555,000	12.7	10,507

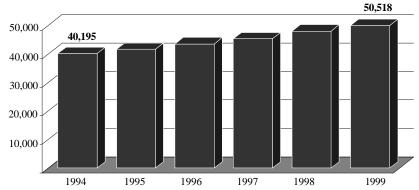
PublicEm p loy ess Po lice and Fire Fund

			Year-E	End Total	% Increase	Average
Year <u>Ended</u>	Number <u>Added</u>	Number <u>Removed</u>	Number	Annual Allowances	in Annual Allowances	Annual Allowances
6-30-94	191	55	1,874	\$ 30,064,000	17.7	\$16,043
6-30-95	196	63	2,007	33,897,000	12.7	16,889
6-30-96	214	66	2,155	39,365,000	16.1	18,266
6-30-97	206	67	2,294	49,633,000	26.1	21,636
6-30-98	311	81	2,524	61,262,000	23.4	24,272
6-30-99	338	90	2,772	74,656,000	21.9	26,932

Police and Fire Consolication Fund

			Year-E	End Total	% Increase	Average
Year <u>Ended</u>	Number <u>Added</u>	Number <u>Removed</u>	Number	Annual <u>Allowances</u>	in Annual <u>Allowances</u>	Annual <u>Allowances</u>
6-30-94	703	72	1,945	\$ 37,091,000	57.7%	\$19,070
6-30-95	111	74	1,982	39,570,000	6.7	19,965
6-30-96	149	75	2,056	43,879,000	10.9	21,342
6-30-97	273	91	2,238	54,949,000	25.2	24,552
6-30-98	280	101	2,417	65,775,506	19.7	27,213
6-30-99	177	107	2,487	74,564,533	13.0	29,982

Retirem ent FunciAnnuitants



The number of people receiving retirement annuities from PERA's three defined benefit plans has increase over 25 percent during the past six fiscal years.

Schedule of Changes in Unfunded Actuarial Accrued Liabilities (UAAL)*

(in thousands)

	PERF	PEPFF
A. UAAL at Beginning of Year (7/1/98)	\$1,132,635	\$ (595,969)
B. Change Due to Interest Requirements and Current Rate of Funding		
 Normal Cost and Expenses Contributions Interest on A, B1 and B2 	265,077 (331,845) 93,436	81,278 (77,177) (50,483)
C. Expected UAAL at End of Year (A+B)	\$1,159,303	\$(642,351)
 D. Increase (Decrease) Due to Actuarial Losses (Gains) Because of Experience Deviations from Expected 1. Salary Increases. If there are smaller salary increases than assumed, there is a gain. If larger, a loss. 	(57,350)	(12,999)
2. Investment Return. If there is greater investment return than assumed, there is a gain. If less, a loss.	(91,210)	(43,330)
3. MPRIF Mortality. If Post Fund annuitants live longer than assumed, there is a loss. If not as long, a gain.	(72,180)	1,987
4. Mortality of Other Benefit Recipients. If annuitants live longer than assumed, there is a loss. If not as long, a gain.	(10,853)	1,972
5. Other Items . Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	26,791	24,167
E. UAAL at End of Year Before Plan Amendments and changes in Actuarial Assumption (C+D)	\$ 954,501	\$(670,554)
F. Change in Actuarial Accrued Liability Due to Plan Amendments	0	0
G. Change in Actuarial Accrued Liability Due to Changes in Actuarial Assumptions	0	0
H. UAAL at End of Year 6/30/99 (E+F+G)	\$ 954,501	\$(670,554)

^{*}Information is not available for the PFCF.

Schedule of Revenue by Source

Statistical Section

(In thousands)

PublicEmp loy es R etirem ent Fund

		Employe	er Contribution	Net Invest	ment Income**		
Fiscal <u>Year</u>	Member Contribution	Amount	Percent of Covered Payroll	Amount	Percent of Total Revenue	Other	Total
1994	\$112,940	\$119,390	4.6%	\$ 474,648	67%	\$ 3,567	\$ 710,545
1995	115,986	123,983	4.6%	407,723	63%	790	648,482
1996	121,525	129,738	4.5%	708,969	74%	1,202	961,434
1997	128,234	136,686	4.5%	1,389,595	84%	1,133	1,655,648
1998	140,386	151,499	4.7%	1,581,550	84%	1,382	1,874,817
1999	158,475	173,370	5.2%	1,052,303	76%	2,405	1,386,553

PublicEm p loy ess Police and Fire Fund

		Employ	er Contribution	Net Investment Income**		-	
Fiscal	Member		Percent of		Percent of		
<u>Year</u>	Contribution	Amount	Covered Payroll	Amount	Total Revenue	<u>Other</u>	<u>Total</u>
1994	\$ 21,806	\$ 32,536	11.7%	\$ 113,562	68%	\$ 271	\$ 168,175
1995	22,356	33,548	11.4%	103,733	64%	2,470	162,107
1996	24,065	36,065	11.4%	214,691	78%	159	274,980
1997	26,354	39,508	11.4%	392,640	86%	59	458,561
1998	28,552	42,786	11.4%	491,525	87%	193	563,056
1999	30,897	46,280	11.4%	323,707	80%	310	401,194

Fiscal	Member	Employor	Net Invest	ment Income** Percent of		
Year Year	<u>Contribution</u>	Employer Contribution	Amount	Total Revenue	Other*	Total
1994	\$ 3,030	\$ 15,195	\$ 36,865	12%	\$256,584	\$ 311,674
1995	4,237	16,849	47,123	69%	422	68,631
1996	4,061	15,091	89,994	77%	7,931	117,077
1997	3,950	13,509	179,895	78%	33,647	231,001
1998	3,733	13,229	230,710	85%	24,222	271,894
1999	3,429	11,569	136,094	89%	2,077	153,169

^{*} Includes the initial transfer of assets for municipal relief associations who have consolidated with the PFCF during the fiscal year.

^{**} FY97, FY98 and FY99 Net Investment Income includes unrealized gains and losses in accordance wit h GASB 25.



Schedule of Expense by Type

Last Six Years (in thousands)

Public Emp loy ees Retirem ent Fund

Fiscal			Administrative		
Year	Benefits	Refunds	Expenses	Other	Total
1994	\$264,233	\$11,336	\$4,397	\$ 897	\$280,863
1995	290,484	11,929	4,794	763	307,970
1996	312,511	14,683	5,515	835	333,544
1997	342,155	16,267	5,667	1,119	365,208
1998	412,745	16,922	7,076	1,301	438,044
1999	467,601	17,219	9,631	1,618	496,069

Public Em p loy ess Po lice and Fire Fund

	· · · · · · · · · · · · · · · · · · ·			<u> </u>	
Fiscal			Administrative		
Year	Benefits	Refunds	Expenses	Other	Total
1994	\$ 28,126	\$ 760	\$ 312	\$ 65	\$ 29,263
1995	32,151	592	344	2,610	35,697
1996	37,132	845	400	111	38,488
1997	43,045	933	426	161	44,565
1998	56,034	1,182	525	129	57,870
1999	68,672	1,076	737	222	70,707

	<u> </u>	\ <u></u>		<u> </u>	
Fiscal Year	Benefits	Refunds	Administrative Expenses	Other	Total
1994	\$ 27,305	\$ 255	\$ 85	\$ 318	\$ 27,963
1995	38,669	129	121	55	38,974
1996	41,841	79	133	182	42,235
1997	47,322	8	159	138	47,627
1998	61,106	296	221	405	62,028
1999	70,780	30	278	188	71,276

Benefit Expense by Type

Last Six Years (in thousands)

PublicEmployees Retirement Fund

Fiscal Year	Retirement	Survivor	Disability	Refund	Total
1994	\$244,913	\$13,360	\$ 5,960	\$11,336	\$275,569
1995	270,270	13,508	6,706	11,929	302,413
1996	291,331	13,955	7,225	14,683	327,194
1997	320,236	14,022	7,897	16,267	358,422
1998	387,629	15,343	9,773	16,922	429,667
1999	439,892	16,603	11,106	17,219	484,820

PublicEm p loy ees Police andFire Fund

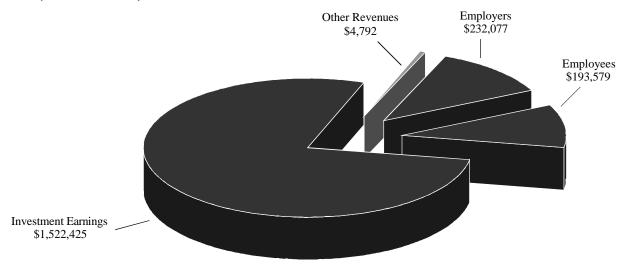
Retirement	Survivor	Disability	Refund	Total
\$ 24,099	\$ 2,135	\$ 1,892	\$ 760	\$ 28,886
27,330	2,348	2,473	592	32,743
31,384	2,547	3,201	845	37,977
36,190	2,730	4,125	933	43,978
46,849	3,297	5,888	1,182	57,216
57,470	3,702	7,500	1,076	69,748
	\$ 24,099 27,330 31,384 36,190 46,849	\$ 24,099 \$ 2,135 27,330 2,348 31,384 2,547 36,190 2,730 46,849 3,297	\$ 24,099 \$ 2,135 \$ 1,892 27,330 2,348 2,473 31,384 2,547 3,201 36,190 2,730 4,125 46,849 3,297 5,888	\$ 24,099 \$ 2,135 \$ 1,892 \$ 760 27,330 2,348 2,473 592 31,384 2,547 3,201 845 36,190 2,730 4,125 933 46,849 3,297 5,888 1,182

Fiscal Year	Retirement	Survivor	Disability	Refund	Total
1994	\$ 25,044	\$ 1,367	\$ 894	\$ 255	\$ 27,560
1995	35,185	2,361	1,123	129	38,798
1996	37,534	2,761	1,546	79	41,920
1997	42,207	3,277	1,838	8	47,330
1998	54,246	4,177	2,683	296	61,402
1999	61,797	4,927	4,056	30	70,810

Revenues

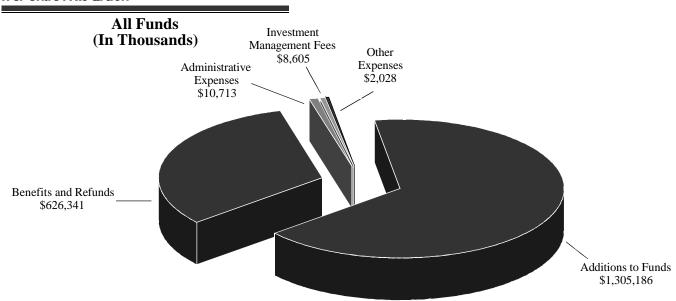
Revenue by Source

All Funds (In Thousands)



Investment earnings make up 78 percent of PERA's revenues, while employee and employer contributions total 21 percent of the association's income.

Revenue Allocation



Over 66 percent of PERA's revenues were added to the association's funds in fiscal year 1999.

Schedule of Retired Members

by Amount and Type of Benefit

PublicEm p loy ess Retirem ent Funcl

Amount of Monthly Benefit	Annuitant	Optional Annuitant	Disabilitant	Survivor	Total
\$ 1- 500	18,427	1,827	622	1,096	$2\overline{1,97}2$
501-1,000	8,631	997	403	248	10,279
1,001-1,500	3,667	529	162	247	4,605
1,501-2,000	2,206	325	44	134	2,709
2,001-2,500	1,682	188	31	33	1,934
2,501-3,000	1,246	100	13	15	1,374
3,001-3,500	843	60	11	1	915
3,501-4,000	524	31	7	4	566
4,001-4,500	316	19	3	1	339
4,501-5,000	217	15	3	0	235
Over 5,000	318	<u>11</u>	2	0	331
	38,077	4,102	1,301	1,779	45,259

PublicEm p loy ess Police and Fire Fund

Amount of		Optional			
Monthly Benefit	Annuitant	Annuitant	Disabilitant	Survivor	<u>Total</u>
\$ 1- 500	174	33	8	59	274
501-1,000	156	63	15	29	263
1,001-1,500	206	68	24	45	343
1,501-2,000	217	50	62	36	365
2,001-2,500	251	28	65	15	359
2,501-3,000	288	18	61	16	383
3,001-3,500	249	14	31	14	308
3,501-4,000	204	4	18	7	233
4,001-4,500	113	2	5	0	120
4,501-5,000	56	0	1	0	57
Over 5,000	<u>64</u>	0	3	0	67
	1,978	280	293	221	2,772

Amount of Monthly Benefit	Annuitant	Optional Annuitant	Disabilitant	Survivor	Total
\$ 1- 500	12	27	1	27	67
			1	= -	
501-1,000	21	20	4	22	67
1,001-1,500	30	124	6	145	305
1,501-2,000	115	162	6	113	396
2,001-2,500	290	9	12	4	315
2,501-3,000	449	5	18	4	476
3,001-3,500	503	3	26	2	534
3,501-4,000	98	1	22	4	125
4,001-4,500	68	0	13	0	81
4,501-5,000	51	0	8	0	59
Over 5,000	59	0	3	0	62
	1,696	351	119	321	2,487

Average Benefit Payments

Last Five Years

PublicEmployees Retirement Funci

Retirement Effective Dates			Ve	ars of Servic	e		
July 1, 1994 to June 30, 1999	0-5	5-10	10-15	15-20	20-25	25-30	30+
Period 7/1/94 to 6/30/95:							
Average Monthly Benefit	\$122.62	\$200.24	\$367.05	\$574.58	\$764.14	\$1,520.02	\$3,045.68
Number of Current Retirees	183	312	369	372	394	201	118
Period 7/1/95 to 6/30/96:							
Average Monthly Benefit	\$106.99	\$203.19	\$360.07	\$556.62	\$752.70	\$1,331.63	\$2,971.58
Number of Current Retirees	223	341	403	458	444	283	181
Period 7/1/96 to 6/30/97:							
Average Monthly Benefit	\$102.12	\$189.63	\$355.18	\$520.51	\$740.60	\$1,133.33	\$2,617.63
Number of Current Retirees	228	331	398	396	379	288	231
Period 7/1/97 to 6/30/98:							
Average Monthly Benefit	\$108.63	\$181.89	\$350.48	\$510.38	\$719.80	\$1,109.49	\$2,284.73
Number of Current Retirees	262	445	516	535	500	405	370
Period 7/1/98 to 6/30/99:							
Average Monthly Benefit	\$ 92.08	\$180.73	\$321.35	\$494.04	\$688.65	\$ 987.85	\$2,146.07
Number of Current Retirees	294	435	538	504	452	404	377
Period 7/1/94 to 6/30/99:							
Average Monthly Benefit	\$105.14	\$189.96	\$348.76	\$528.41	\$731.73	\$1,174.70	\$2,471.68
Number of Current Retirees	1,190	1,864	2,224	2,265	2,169	1,581	1,277

Average Benefit Payments

Last Five Years

Public Employ ees Police and Fire Fund

5-10 20 \$ 779.80 11 83 \$ 902.69 41 \$ 691.42 3	9 \$1,128.05 10	\$2,078.12 15 \$1,757.31 8 \$1,477.89 14	\$2,719.10 26 \$2,345.42 30 \$2,218.90 22	\$3,611.54 41 \$3,432.96 50 \$2,983.53 45	\$4,854.13 15 \$4,168.65 18 \$3,855.63 29
11 83 \$ 902.69 4 41 \$ 691.42	9 \$1,128.05 10 \$1,311.01	\$1,757.31 8 \$1,477.89	\$2,345.42 30 \$2,218.90	\$3,432.96 50 \$2,983.53	\$4,168.65 18 \$3,855.63
11 83 \$ 902.69 4 41 \$ 691.42	9 \$1,128.05 10 \$1,311.01	\$1,757.31 8 \$1,477.89	\$2,345.42 30 \$2,218.90	\$3,432.96 50 \$2,983.53	\$4,168.65 18 \$3,855.63
83 \$ 902.69 4 41 \$ 691.42	\$1,128.05 10 \$1,311.01	\$1,757.31 8 \$1,477.89	\$2,345.42 30 \$2,218.90	\$3,432.96 50 \$2,983.53	\$4,168.65 18 \$3,855.63
4 41 \$ 691.42	10 \$1,311.01	8 \$1,477.89	30 \$2,218.90	50 \$2,983.53	18 \$3,855.63
4 41 \$ 691.42	10 \$1,311.01	8 \$1,477.89	30 \$2,218.90	50 \$2,983.53	18 \$3,855.63
41 \$ 691.42	\$1,311.01	\$1,477.89	\$2,218.90	\$2,983.53	\$3,855.63
3	13	14	22	45	29
95 \$ 833.32	\$1,352.08	\$1,782.36	\$2,268.26	\$3,056.24	\$3,620.62
11	17	18	49	71	46
59 \$1,023.15	\$1,586.92	\$1,313.92	\$2,147.43	\$2,976.69	\$3,559.39
8	17	12	48	100	46
		Φ1 (00 0(Φ Δ 200 12	\$3,155.19	\$3,830.79
		8 17	8 17 12		8 17 12 48 100

Average Benefit Payments

Last Five Years

Retirement Effective Dates		Years of Service						
July 1, 1994 to June 30, 199	9 0-5	5-10	<u>10-15</u>	<u>15-20</u>	20-25	<u>25-30</u>	30+	
Period 7/1/94 to 6/30/95: Average Monthly Benefit Number of Current Retirees	\$ 0.00	\$ 0.00	\$1,878.54 1	\$2,198.99 5	\$1,858.44 11	\$3,321.91 15	\$4,555.85 20	
Period 7/1/95 to 6/30/96: Average Monthly Benefit Number of Current Retirees	\$1,951.48 1	\$3,237.76 1	\$1,255.24 3	\$1,639.65 3	\$2,394.09 19	\$3,200.78 22	\$4,466.89 25	
Period 7/1/96 to 6/30/97: Average Monthly Benefit Number of Current Retirees	\$2,472.65 30	\$2,180.29 1	\$2,538.23 7	\$2,202.30 13	\$2,27 7.18 37	\$3,020.49 51	\$3,969.95 38	
Period 7/1/97 to 6/30/98: Average Monthly Benefit Number of Current Retirees	\$ 0.00	\$1,467.92 2	\$2,180.81 3	\$2,336.91 8	\$2,597.61 40	\$3,741.58 75	\$4,082.65 61	
Period 7/1/98 to 6/30/99: Average Monthly Benefit Number of Current Retirees	\$ 574.75 1	\$ 0.00	\$1,185.411 3	\$1,375.12 7	\$2,334.84 12	\$3,029.93 39	\$4,131.09 24	
Period 7/1/94 to 6/30/99: Average Monthly Benefit Number of Current Retiree	\$2,397.05 s 32	\$2,088.47 4	\$1,971.21 17	\$2,024.03 36	\$2,370.66 119	\$3,332.06 202	\$4,177.59 168	

Participating Employers

Employers listed below have employees in PERA's Basic, Coordinated or Police and Fire benefit plans

CITIES AND
TOWNSHIPS
ADA
ADAMS
ADRIAN
AFTON
AITKIN
AKELEY
ALBANY
ALBERT LEA
ALBERT LEA TWP.
ALBERTVILLE
ALBION TWP.
ALDEN
ALEXANDRIA
ALPHA C
ALTON TWP.
ALTURA
ALVARADO
AMBOY
ANDOVER
AMHERST TWP.
ANNANDALE
ANOKA
ANTRIM TWP.
APPLETON
APPLE VALLEY
ARBO TWP.
ARDEN HILLS
ARENDAHL TWP.
ARGYLE
ARLINGTON
ARTHUR TWP.
ASHBY
ASKOV
ATWATER
AUDUBON
AURORA
AUSTIN
AVOCA
AVON
BABBITT
BACKUS
BADGER

BATTLE LAKE BAUDETTE BAXTER BAYPORT BEARDSLEY BEAVER BAY BEAVER CREEK TWP. BEAVER CREEK BECKER BELGRADE TWP. BELGRADE BELLE CREEK TWP. BELLE PLAINE BELLEVUE TWP. BELLINGHAM **BELVIEW** BEMIDII BENSON BENTON TWP. **BERTHA BIG FALLS** BIG LAKE BIG LAKE TWP. BIGELOW BIGFORK BINGHAM LAKE BIRCHWOOD BIRD ISLAND BISCAY BIWABIK BIWABIK TWP. BLACKDUCK BLAINE BLOOMING PRARIE BLOOMINGTON **BLUE EARTH** BOVEY BOYD **BRAHAM** BRAINERD **BRANCH BRANDON** BRECKENRIDGE BREEZY POINT BREITUNG TWP. **BREWSTER** BRICELYN BRISTOL TWP. BROOKLYN CENTER BROOKLYN PARK BROOTEN

BROWNS VALLEY BROWNSDALE **BROWNSVILLE BROWNTON** BUFFALO BUFFALO LAKE BURNS TWP. BURNSVILLE BUTTERFIELD BYRON CALEDONIA CALLAWAY CALUMET CAMBRIDGE CAMBRIDGE TWP. CAMDEN TWP. CAMP TWP. CAMPBELL CANBY CANNON FALLS CANNON FALLS TWP CANOSIA TWP. CANTON TWP. CANTON CARIMONA TWP. **CARLOS** CARLTON CARROLTON TWP. CARVER CASS LAKE CENTER CITY CENTER TWP. CENTERVILLE CEYLON CHAMPLIN CHANHASSEN CHASKA CHATFIELD CHATHAM TWP. CHERRY GROVE TWP. CHISAGO CITY CHISAGO LAKE TWP. CHISHOLM CHOKIO CIRCLE PINES CLARA CITY CLAREMONT CLARISSA

CLARKFIELD

CLEAR LAKE

CLEARBROOK

CLEARWATER

CLEARWATER TWP.

CLARKS GROVE

CLEMENTS CLEVELAND CLIMAX CLINTON TWP. CLINTON CLONTARF CLOQUET COKATO TWP. COKATO COLD SPRING COLERAINE COLOGNE **COLUMBIA HEIGHTS** COLUMBUS TWP. COLVIN TWP. COMFREY CONCORD TWP. CONGER COOK COON RAPIDS CORCORAN CORINNA TWP. COSMOS COTTAGE GROVE COTTONWOOD CRATE TWP. CROMWELL CROOKED LAKE TWP. CROOKSTON CROSBY CROSSLAKE CROW RIVER TWP. CRYSTAL CRYSTAL BAY TWP. CULDRUM TWP. **CURRIE CYRUS** DAHLGREN TWP. DALBO TWP. DALTON DANUBE DANVERS DARWIN

DASSEL

DAWSON

DAYTON

DECORIA TWP.

DEEPHAVEN

DEER CREEK

DEER RIVER

DEERWOOD

DE GRAFF

DELANO

DELAVAN

DELLWOOD

DETROIT LAKES DEXTER DILWORTH DODGE CENTER DONNELLY DOVRAY DRESBACH TWP. DRYDEN DULUTH DULUTH TWP. DUNDAS DUNDEE DUNN TWP. DUNNELL **EAGAN** EAGLE BEND EAGLE LAKE EAST BETHEL EAST GRAND FORKS **FCHO** EDEN PRAIRIE EDEN VALLEY EDGERTON **EDINA EITZEN** ELBOW LAKE **ELGIN ELIZABETH** ELIZABETH TWP. ELK RIVER ELKO ELKTON ELLENDALE ELLINGTON TWP. ELLSWORTH ELM CREEK TWP ELM DALE TWP. **ELMORE** ELY **ELYSIAN** EMBARRASS TWP. **EMILY EMMONS** EMPIRE TWP **ERHARD ERSKINE EVANSVILLE EVELETH** EXCELSIOR **EYOTA** FAIRFAX FAIRFIELD TWP. FAIR HAVEN TWP FAIRMONT FALCON HEIGHTS FALL LAKE TWP. FARIBAULT

FARMINGTON

FERGUS FALLS

FAYAL TWP.

FIFTY LAKES

FERTILE

FINLAYSON FISH LAKE TWP FLENSBURG FLOODWOOD **FOLEY** FOREST LAKE TWP. FOREST LAKE FORESTON **FOSSTON** FOUNTAIN FRANCONIA TWP. FRANKFORT TWP. FRANKLIN TWP. FRANKLIN FRAZEE **FREDENBE** FREEBORN FRENCH TWP. FRENCH LAKE TWP. FRIBERG TWP. FRIDLEY FROST **FULDA** GARDEN CITY **GARFIELD** GARFIELD TWP. GARRISON TWP. **GARVIN GARY GAYLORD GHENT** GIBBON GILBERT GILMAN GIRARD TWP. GLENCOE **GLENVILLE** GLENWOOD **GLYNDON** GNESEN TWP. GOLDEN VALLEY GONVICK GOOD THUNDER GOODHUE GOODRIDGE GOODVIEW **GRACEVILLE** GRANADA GRAND MARAIS GRAND MEADOW GRAND RAPIDS TWP. GRAND RAPIDS GRANITE FALLS GRANT TWP. GREAT SCOTT TWP. **GREENBUSH** GREENBUSH TWP. **GREENFIELD** GREENWAY TWP. GREENWOOD TWP. GREY EAGLE

GROVE CITY

BROWERVILLE

BAGLEY

BALATON

BARNUM

BARRETT

BALKAN TWP

BANDON TWP.

BARNESVILLE

BASS BROOK

GRYGLA	ISLE	LEWISTON	MIDDLE RIVER	NORTHFIELD TWP.	PRINCETON TWP.
HACKENSACK	IVANHOE	LEWISVILLE	MIDDLEVILLE TWP.	NORTHOME	PRINCETON
HADLEY	JACKSON	LEXINGTON	MIDWAY TWP.	NORTHROP	PRINSBURG
HALLOCK	JANESVILLE	LIDA TWP.	MILACA	NORWAY TWP.	PRIOR LAKE
HALSTAD	JASPER	LILYDALE	MILACA TWP.	NORWOOD	PROCTOR
HAM LAKE	JAY TWP.	LINDSTROM	MILAN	OAK GROVE TWP.	QUINCY TWP.
HAMBURG	JEFFERS	LINO LAKES	MILLERVILLE	OAKLAND TWP.	RACINE TWP.
HANCOCK	JENKINS	LINWOOD TWP.	MILO TWP.	OAK LAWN TWP.	RACINE
HANLEY FALLS	JORDAN	LISMORE	MILROY	OAK PARK HEIGHTS	RAMSEY
HANOVER	KANDIYOHI	LITCHFIELD	MILTONA	OAKDALE	RANDALL
HANSKA	KARLSTAD	LITTLE CANADA	MINNEAPOLIS	ODESSA	RANDOLPH
HARDWICK	KASOTA	LITTLE FALLS	MINNEOTA	OGEMA	RANIER
HARMONY	KASSON	LITTLEFORK	MINNESOTA LAKE	OGILVIE	RAYMOND
HARRIS	KEEWATIN	LIVONIA TWP.	MINNETONKA	OKABENA	RED LAKE FALLS
HARRIS TWP.	KELLIHER	LONG LAKE	MINNETONKA BEACH	OKLEE	RED WING
HARTLAND	KELLOGG	LONG LAKE TWP.	MINNETRISTA	OLIVIA	REDWOOD FALLS
HASSAN TWP.	KENNEDY	LONG PRAIRIE	MONTEVIDEO	ONAMIA	REMER
HASTINGS	KENSINGTON	LONGVILLE	MONTGOMERY	ORION TWP.	RENVILLE
HAWLEY	KENYON	LONSDALE	MONTICELLO TWP.	ORONO	RICE
HAYFIELD	KERKHOVEN	LORETTO	MONTICELLO	ORONOCO	RICE LAKE TWP.
HAYWARD	KETTLE RIVER TWP.	LUCAN	MONTROSE	ORR	RICHFIELD
HECTOR	KETTLE RIVER	LUVERNE	MOORHEAD	ORROCK TWP.	RICHMOND
HELEN TWP.	KIESTER	LYLE	MOOSE LAKE	ORTON TWP.	ROBBINSDALE
HENDERSON	KIMBALL	LYLE TWP.	MORA	OSAKIS	ROCHESTER
HENDRICKS	KINNEY	LYND	MORGAN	OSLO	ROCHESTER TWP.
HENDRUM	KRAIN TWP.	MABEL	MORRIS	OSSEO	ROCK CREEK
HENNING	LA CRESCENT	MADELIA	MORRISTOWN	OTSEGO	ROCKFORD TWP.
HERMANTOWN	LAFAYETTE TWP.	MADISON	MORSE TWP.	OSTRANDER	ROCKFORD
HERMAN	LAFAYETTE	MADISON LAKE	MORTON	OWATONNA	ROCKWOOD TWP.
HERON LAKE	LA GRANDE TWP.	MAGNOLIA TWP.	MOTLEY		
HEWITT	LAKE BENTON	MAHNOMEN	MOUND	PALISADE PARK RAPIDS	ROGERS ROLLING GREEN TW
HIBBING	LAKE BRONSON	MAIN TWP.			
			MOUNDS VIEW C	PARKERS PRAIRIE	ROLLINGSTONE
HILL CITY	LAKE CITY	MANKATO	MOUNTAIN I AVE TWO	PAYNESVILLE	ROOSEVELT TWP.
HILLS	LAKE CRYSTAL	MANKATO	MOUNTAIN LAKE TWP.	PELICAN RAPIDS	ROSE CREEK
HILLTOP	LAKE EDWARD TWP.	MANKATO TWP.	MOUNTAIN LAKE	PEMBERTON	ROSEAU
HINCKLEY	LAKE ELMO	MANTORVILLE TWP.	MURDOCK	PENN TWP.	ROSEMOUNT
HITTERDAL	LAKE LILLIAN	MANTORVILLE	NASHWAUK TWP.	PEQUOT LAKES	ROSEVILLE
HOFFMAN	LAKE PARK	MAPLE GROVE	NASHWAUK	PERHAM	ROTHSAY
HOKAH	LAKE SHORE	MAPLE LAKE TWP.	NESSEL TWP.	PETERSON	ROUND LAKE
HOLDEN TWP.	LAKE ST. CROIX BEACH	MAPLE LAKE	NEVIS	PIERZ	ROYALTON TWP.
HOLDING TWP.	LAKE VIEW TWP.	MAPLE PLAIN	NEVIS TWP.	PILOT MOUND TWP.	ROYALTON
HOLDINGFORD	LAKE WILSON	MAPLETON	NEW AUBURN	PILLAGER	RUSH CITY
HOLLAND	LAKEFIELD	MAPLEVIEW	NEW BRIGHTON	PIKE CREEK TWP.	RUSHFORD
HOLLANDALE TWP.	LAKE FREMONT TWP.	MAPLEWOOD	NEW HOPE	PINE CITY TWP.	RUSHFORD VILLAGE
HOLLOWAY	LAKETAEMONTTWI	MARBLE	NEW LONDON	PINE CITY	RUSHMORE
HOLLY TWP.	LAKETOWN TWP.	MARCELL TWP.	NEW MUNICH	PINE ISLAND	RUSSELL
HOLLYWOOD TWP.	LAKEVILLE	MARIETTA	NEW PRAGUE	PINE LAKE TWP.	SACRED HEART
HOPKINS	LAKEVILLE LAKIN TWP.	MARINE ON ST CROIX	NEW RICHLAND	PINE RIVER TWP.	ST. ANTHONY
HOUSTON		MARSHALL	NEW SCANDIA TWP.	PINE RIVER	ST. AUGUSTA TWP.
HOWARD LAKE	LAMBERTON	MARTIN TWP.	NEW ULM	PIPESTONE	ST. BONIFACIUS
HOYT LAKES	LANCASTER	MARYSVILLE TWP.	NEW YORK MILLS	PLAINVIEW TWP.	ST. CHARLES
HUGO	LANESPORO	MAY TWP.	NEWBURG TWP.	PLAINVIEW	ST. CLAIR
HUTCHINSON	LANESBURGHTWR	MAYER	NEWFOLDEN	PLATO	ST. CLOUD
IDEAL TWP.	LANESBURGHTWP.	MAYNARD	NEWPORT	PLUMMER	ST. CLOUD TWP.
INDEPENDENCE	LAPRAIRIE	MAZEPPA	NICOLLET	PLYMOUTH	ST. FRANCIS
INTERNATIONAL	LAUDERDALE	MC GREGOR	NISSWA	POKEGAMA TWP.	ST. HILAIRE
FALLS	LE CENTER	MCINTOSH	NORDLAND TWP.	POWERS TWP.	ST. JAMES
INVER GROVE HEIGHTS	LENT TWP	MEDFORD	NORTH BRANCH	PREBLE TWP.	ST. JOSEPH
IRON RANGE TWP.	LEON TWP.	MEDINA	NORTH MANKATO	PRESTON	ST. JOSEPH TWP.
	LEROY	MELROSE	NORTH OAKS		
IRONDALE TWP.	LE SAUK TWP.	MENAHGA	NO. ST. PAUL	D	blic Employees
IRONTON	LESUEUR	MENDOTA HEIGHTS	NORTHERN TWP.		
ISANTI	LESTER PRAIRIE	MENTOR	NORTHEIELD		ent Association of Minnesota

LESTER PRAIRIE

MENTOR

NORTHFIELD

Statistical Section

FILLMORE

ST. LEO	TACONITE	WENDELL	FREEBORN	SCHOOL DISTRICTS	BUFFALO LAKE #647
ST. LOUIS PARK	TAYLORS FALLS	WEST CONCORD	GOODHUE	ACORN DUAL	BURNSVILLE #191
ST. MICHAEL	THIEF RIVER FALLS	WEST ST. PAUL	GRANT	LANGUAGE	BUTTERFIELD#836
ST. OLAF TWP.	THOMSON	WESTBROOK	HENNEPIN	ADA #521	BYRON #531
ST. PAUL	THOMSON TWP.	WESTBROOK TWP.	HOUSTON	ADRIAN #511	CALEDONIA #299
ST. PAUL PARK	TINTAH	WHEATON	HUBBARD	AITKIN #1	CAMBRIDGE-
ST. PETER	TONKA BAY	WHITE TWP.	ISANTI	ALBANY #745	ISANTI #911
SANBORN	TOWER	WHITE BEAR TWP.	ITASCA	ALBERT LEA #241	CAMPBELL- TINTAH #852
SANDSTONE	TRACY	WHITE BEAR LAKE	JACKSON	ALDEN-CONGER #242	CANBY #891
SARTELL	TRIMONT	WILLIAMS	KANABEC	ALEXANDRIA #206	CANNON FALLS #252
SAUK CENTRE	TROUT LAKE TWP.	WILLERNIE	KANDIYOHI	ALVARADO #436	CAPITAL CITY
SAUK RAPIDS	TRUMAN	WILLMAR	KITTSON	AMBOY-GOOD THUNDER #79	CHARTER
SAVAGE	TURTLE LAKE TWP.	WILMONT	KOOCHICHING	ANNANDALE #876	CARLTON #93
SCANDIA VALLEY	TWIN VALLEY	WINDOM	LAC QUI PARLE	ANOKA-HENNEPIN #11	CASS LAKE #115
SCANLON	TWO HARBORS	WINGER	LAKE	ARGYLE #437	CEDAR-RIVERSIDE COMMUNITY
SEBEKA	TWO RIVERS TWP.	WINNEBAGO	LAKE OF THE WOODS	ARLINGTON-	CENTENNIAL #12
SHAFER	TYLER	WINONA	LE SUEUR	GREEN ISLE #731	CENTRAL MN. DEAF
SHAKOPEE	ULEN	WINSTED	LINCOLN	ASHBY #261	CEYLON #451
SHAMROCK TWP.	UNDERWOOD	WINTHROP	LYON	ATWATER #341	CHASKA #112
SHELLY	UPSALA	WINTON	MAHNOMEN	AUDUBON #21	CHATFIELD #227
SHERBURN	VADNAIS HEIGHTS	WOLF LAKE	MARSHALL	AURORA-HOYT LKS BIWABIK #2711	CHISHOLM #695
SHETEK TWP.	VASA TWP.	WOLFORD TWP.	MARTIN	AUSTIN #492	CHOKIO-ALBERTA #7
SHINGOBEE TWP.	VERGAS	WOLVERTON	MCLEOD	BABBITT #692	CHOSEN VALLEY #22
SHOREVIEW	VERMILLION	WOOD LAKE	MEEKER	BADGER #676	CITY ACADEMY
SIBLEY TWP.	VERNDALE	WOODBURY	MILLE LACS	BAGLEY #162	CLARA CITY #126
SILVER BAY	VERNON CENTER	WOODLAND TWP.	MORRISON	BALATON #411	CLARKFIELD #892
SILVER CREEK TWP.	VESTA	WORTHINGTON	MOWER	BARNESVILLE #146	CLEARBROOK #161
SILVER LAKE	VICTOR TWP.	WRENSHALL	MURRAY	BARNUM #91	CLEVELAND #391
SLAYTON	VICTORIA	WYANETT TWP.	NICOLLET	BARRETT #262	CLIMAX #592
SLEEPY EYE	VIRGINIA	WYKOFF	NOBLES	BATTLE LAKE #542	CLINTON-
SOLWAY TWP.	WABASHA	WYOMING TWP.	NORMAN	BEARDSLEY #57	GRACEVILLE #55
SO. ST. PAUL	WABASSO	WYOMING	OLMSTED	BECKER #726	CLOQUET #94
SOUTH BEND TWP.	WACONIA	YORK TWP.	OTTERTAIL	BELGRADE #736	COKATO-DASSEL #46
SOUTH HAVEN	WACONIA TWP.	YNG. AMERICA TWP.	PENNINGTON	BELLE PLAINE #716	COLD SPRING #750
SPICER	WADENA	YOUNG AMERICA	PINE	BELLINGHAM #371	COLERAINE #316
SPRING GROVE	WAHKON	YUCATAN TWP.	PIPESTONE	BELVIEW #631	COLUMBIA
SPRING LAKE PARK	WAITE PARK	ZIMMERMAN	POLK	BEMIDJI #31	HEIGHTS #13
SPRING PARK	WALDORF	ZUMBROTA	POPE	BENSON #777	COMFREY #81
SPRING VALLEY	WALKER		RAMSEY	BERTHA-HEWITT #786	COMMUNITY OF PEACE ACADEMY
SPRINGDALE TWP.	WALNUT GROVE	COUNTIES	RED LAKE	BIG LAKE #727	COOK COUNTY #166
SPRINGFIELD	WALTHAM TWP.	AITKIN	REDWOOD	BIRD ISLAND-	COSMOS #461
STACY	WANAMINGO TWP.	ANOKA	RENVILLE	OLIVIA #2534	COTTONWOOD #412
STANFORD TWP.	WANAMINGO	BECKER	RICE	BLACKDUCK #32	CROMWELL #95
STANTON TWP.	WANDA	BELTRAMI	ROCK	BLOOMING	CROOKSTON #593
STAPLES	WARREN	BENTON	ROSEAU	PRAIRIE #756	CROSBY-IRONTON #1
STARBUCK	WARROAD	BIG STONE	ST LOUIS	BLOOMINGTON #271	CYBER VILLAGE
STEPHEN	WARSAW TWP.	BLUE EARTH	SCOTT SHERBURNE	BLUE EARTH #240	ACADEMY
STEWART	WASECA	BROWN	SIBLEY	BLUFFVIEW MONTESSORI	CYRUS #611
STEWARTVILLE	WATERTOWN TWP.	CARLTON		BORUP#522	DAKOTA CO.TECH. COLLEGE #917
STILLWATER TWD	WATERVILLE	CARVER 1	STEARNS	BOYD-DAWSON #378	
STILLWATER TWP.	WATERVILLE	CASS	STEELE	BRAHAM #314	DAKOTA\OPEN CHARTER
STOCKHOLM TWP. STOCKTON	WATKINS	CHIPPEWA	STEVENS SWIFT	BRAINERD#181	DANUBE #648
STOCKTON	WATSON	CHISAGO	TODD	BRANDON #207	DEER RIVER #317
	WAUBUN WAVERLY	CLAY		BRECKENRIDGE #846	DELANO #879
SVERDRUP TWP.		CLEARWATER	TRAVERSE	BREWSTER #513	DELAVAN #218
SWAN RIVER TWP.	WAYZATA	COOK	WABASHA	BRICELYN #217	DETROIT LAKES #22
SWANVILLE TWP.	WEBSTER TWP.	COTTONWOOD	WADENA	BROOKLYN CNTR. #286	DILWORTH#147
SWANVILLE	WELLC	CROW WING	WASECA	BROOTEN #737	DODGE CENTER-
SYLVAN TWP.	WELLS	DAKOTA	WASHINGTON	BROWERVILLE #787	CLAREMONT-
		DODGE	WATONWAN	BROWNS VALLEY #801	W. CONCORD #2125
Public Emplo		DOUGLAS	WILKIN	BROWNTON #421	DULUTH #709
of Minnesota		FARIBAULT	WRIGHT	BUFFALO #877	DULUTH PUBLIC SCHOOLS ACADEMY
		FILLMORE	YELLOW MEDICINE		

EAGLE BEND #790 EAST CHAIN-GRANADA #2536 EAST GRAND FORKS #595 ECHO #893 ECHO CHARTER EDEN PRAIRIE #272 EDEN VALLEY-WATKINS #463 EDGERTON #581 EDINA #273 ELGIN-MILLVILLE #806 ELK RIVER #728 ELLENDALE #762 ELLSWORTH #514 ELMORE #219 ELY #696 EMILY CHARTER EMMONS #243 EVANSVILLE #208 EVELETH #697 EYOTA-DOVER #533 FAIRFAX-GIBBON-WINTHROP #2365 FARIBAULT #656 FARMINGTON #192 FERGUS FALLS #544 FERTILE #599 FINLAYSON #570 FISHER #600 FLOODWOOD #698 FOLEY #51 FOREST LAKE #831 FOSSTON #601 FRANKLIN #650 FRAZEE #23 FREDERICK DOUGLAS MATH SCIENCE TECH. ACADEMY FREEBORN #244 FRIDLEY #14 **FULDA #505** GARY #523 GAYLORD #732 GILBERT #699 GLENCOE #422 GLENVILLE #245 GLYNDON-FELTON #145 GONVICK-TRAIL #158 GOODHUE #253 GOODHUE CO. #6051 GOODRIDGE #561 **GRAND MEADOW #495** GRAND RAPIDS #318 **GRANITE FALLS #894** GREENBUSH #678 GREY EAGLE #791 GROVE CITY #464 GRYGLA #447 HALLOCK-HUMBOLDT #2359

HALSTAD-HENDRUM #2527 HANCOCK #768 HARMONY #228 HASTINGS #200 HAWLEY #150 HAYFIELD #203 HECTOR #651 HENDRICKS #402 HENNEPIN CO. #287 HENNING #545 HERMAN #264 HERMANTOWN #700 HERON LAKE-OKABENA #330 HIAWATHA VALLEY #61-6013 HIBBING #701 HIGHER GROUND ACADEMY HILL CITY #2 HILLS-BEAVER CREEK #671 HINCKLEY #573 HOFFMAN #265 HOLDINGFORD #738 HOPKINS #270 HUSTON #294 HOWARD LAKE-WAVERLY #880 **HUTCHINSON #423** INTERNATIONAL FALLS #361 INVER GROVE HEIGHTS #199 ISLE #473 IVANHOE #403 JACKSON #324 JANESVILLE-PEMBERTON-WALDORF #2835 JASPER #582 JEFFERS-STORDEN #178 JORDAN #717 KARLSTAD-STRANDOUIST #2358 KASSON-MANTORVILLE #204 KELLIHER #36 KENNEDY #354 KENSINGTON #209 KENYON #254 KERKHOVEN-MURDOCK-SUNBURG#775 KIESTER #222 KIMBALL #739 KOOCHICHING COUNTY #363 LA CRESCENT #300 LAKE BENTON #404 LAKE CITY #813 LAKE CRYSTAL #2071 LAKE PARK #24 LAKE SUPERIOR #381

LAKE WILSON-

CHANDLER #918

LAKE OF THE WOODS #390 LAKEFIELD #325 LAKEVILLE #194 LAMBERTON #633 LANCASTER #356 LANESBORO #229 LAPORTE #306 LE CENTER #392 LEROY-OSTRANDER #499 LE SUEUR-HENDERSON #2397 LESTER PRAIRIE #424 LEWISTON #857 LINSTROM-CHISAGO LAKES #141 LITCHFIELD #465 LITTLE FALLS #482 LITTLEFORK-BIG FALLS #362 LONG PRAIRIE #792 LYLE #497 LYND #415 MABEL-CANTON #238 MADELIA #837 MADISON IOINT POWERS #6011 MAGNOLIA #669 MAHNOMEN #432 MAHTOMEDI #832 MANKATO #77 MAPLE LAKE #881 MAPLETON #72 MARSHALL #413 MAYNARD #127 MAZEPPA-ZUMBROTA #2805 MC GREGOR #4 MC LEOD WEST MEDFORD #763 MELROSE #740 MENAHGA #821 MENTOR #604 MIDDLE RIVER #440 MID--STATE #6979 MILACA #912 MILROY #635 MINNEAPOLIS #1 MINNEOTA #414 MINNESOTA LAKE #223 MN RIVER VALLEY #993 MN. TRANSITIONS CHARTER MINNETONKA #276 MONTEVIDEO #129 MONTGOMERY-LONSDALE#394 MONTICELLO #882 MOORHEAD #152

MOOSE LAKE #97

MORA #332

MORGAN #636

MORRIS #769 MORRISTOWN #657 MORTON #652 MOTLEY #483 MOUNDS VIEW #621 MOUNTAIN IRON-BUHL #712 **MOUNTAIN LAKE #173** NASHWAUK-KEEWATIN #319 NETT LAKE #707 **NEVIS #308** NEW HEIGHTS NEW LONDON-SPICER #345 NEW PRAGUE #721 NEW RICHLAND-HARTLAND #827 NEW SPIRIT NEW ULM #88 NEW VISIONS **NEW YORK MILLS #553** MARSHALL CO. CENTRAL #441 NICOLLET #507 NORTH BRANCH #138 NORTHEAST METRO INTERM #916 NORTHFIELD #659 NO. ST. PAUL-MAPLEWOOD-OAKDALE #622 NORWOOD-YOUNG AMERICA #108 OGILVIE #333 OKLEE #627 ONAMIA #480 ORONO #278 **ORTONVILLE #62** OSAKIS #213 OSLO #442 OSSEO #279 **OWATONNA #761** PACT CHARTER PARK RAPIDS #309 PARKERS PRAIRIE #547 PAYNESVILLE #741 PELICAN RAPIDS #548 PEQUOT LAKES #186 PERHAM #549 PIERZ #484 PILLAGER #116 PINE CITY #578 PINE ISLAND #255 PINE RIVER-BACKUS #117 PIPESTONE #583 PLAINVIEW #810 PLUMMER #628 PRESTON-FOUNTAIN #233 PRINCETON #477 PRIOR LAKE #719 PROCTOR #704 RANDOLPH #195 RAYMOND #346

RED LAKE #38 RED LAKE FALLS #630 RED WING #256 REDWOOD FALLS #637 **REMER #118** RENVILLE #654 RICHFIELD #280 RIGHT STEP ACADEMY ROBBINSDALE#281 **ROCHESTER #535** LUVERNE #670 ROCKFORD #883 ROSEAU #682 ROSEMOUNT #196 ROSEVILLE #623 ROTHSAY #850 **ROUND LAKE #516** ROYALTON #485 RUSH CITY #139 RUSHFORD-PETERSON #239 RUSSELL #418 RUTHTON #584 SACRED HEART #655 ST. ANTHONY #282 ST. CHARLES #858 ST. CLAIR #75 ST. CLOUD #742 ST. FRANCIS #15 ST. JAMES #840 ST. LOUIS CO. #710 ST. LOUIS PARK #283 ST. MICHAEL-ALBERTVILLE #885 ST. PAUL #625 ST. PAUL FAMILY LCCS ST. PETER #508 SANBORN #638 SANDSTONE-ASKOV #2580 SARTELL #748 SAUK CENTRE #743 SAUK RAPIDS #47 SEBEKA #820 SHAKOPEE #720 SHERBURN-TRIMONT-WELCOME #2372 SIBLEY COUNTY-RIVER BEND #6049 SILVER LAKE #425 SIOUX VALLEY #328 SKILLS FOR TOMORROW SLAYTON #504 SLEEPY EYE #84 SOUTHLAND #500 SO. ST. PAUL #6 SO. WASHINGTON COUNTY #833 SPRING GROVE #297

SPRING VALLEY #237 SPRINGFIELD #85 STAPLES #793 STEPHEN #443 STEWART #426 STEWARTVILLE #534 STILLWATER #834 SUCCESS ACADEMY SUMMIT SCHOOL FOR THE ARTS SWANVILLE #486 TAYLORS FALLS #140 THIEF RIVER **FALLS #564 MEADOWLANDS** CHARTER TOWER-SOUDAN #708 TRACY #417 TRUMAN #458 TWIN VALLEY #526 TYLER #409 ULEN-HITTERDAL #914 UNDERWOOD #550 UPSALA #487 VALLEY & LAKES EDUCATION #6001 VERDI#408 VERNDALE #818 VILLAGE SCHOOL OF NORTHFILED VIRGINIA #706 WABASHA-KELLOGG #811 WARASSO #640 WACONIA #110 WADENA #819 WADENA TECH. INSTITUTE WALKER-HACKENSACK-AKELEY #113 WALNUT GROVE #641 WANAMINGO #258 WARREN #446 WARROAD #690 WASECA #829 WATERTOWN-MAYER #111 WATERVILLE-ELYSIAN #395 WAYZATA #284 WELLS-EASTON#224 WESTBROOK #175 WEST CENTRAL #263 WESTONKA #277 WEST ST. PAUL #197 WHEATON #803 WHITE BEAR LAKE #624 WHITE EARTH-OGEMA-WAUBUN #435 WORLD LEARNING SPRING LK. PARK #16 OF CHASKA #4016

Statistical Section

WINSTED #427 WILLMAR #347 WOOD LAKE #896 WILLOW RIVER #577 WORTHINGTON #518 WINDOM #177 WRENSHALL #100 WIN-E-MAC #2609 WYKOFF #236 WINNEBAGO #225 ZUMBRO EDUC. WINONA #861 DIST. #6012

DOVER-EYOTA-ST CHARLES SANITARY DISTRICT EAST CENTRAL REGIONAL DEVELOPMENT COMM.

EAST CENTRAL REGIONAL LIBRARY EAST OTTERTAIL COUNTY SWCD

EAST POLK COUNTY SWCD

ED. COOP SERV UNIT METRO ECSU ISD #920

ED. COOP SERV UNIT 5

ESV REGION 5 COMPUTER SERVICE

FARIBAULT COUNTY SWCD

FERGUS FALLS SPECIAL ED. COOP CENTER

FMC HUMAN SERV BD FREEBORN COUNTY SWCD FRESHWATER EDUCATION DIST. GOODHUE COUNTY SWCD

GOVERNMENT TRAINING SERVICE

GRANT COUNTY SWCD

GREAT RIVER REGIONAL LIBRARY GREENWAY JOINT RECREATION ASSOC. HEADWATER NUTRITION PROJECT

HEADWATERS REG. DEV. COMM.

HENNEPIN CO. PARKS HUBBARD COUNTY SWCD

ISANTI COUNTY SWCD

HUDSON SANITARY LANDFILL AUTHORITY

ITASCA COUNTY SWCD JOINT POWERS BOARD #6046--62 KANABEC COUNTY SWCD KANDIYOHI COUNTY SWCD KITCHIGAMI REGIONAL LIBRARY

KITTSON COUNTY SWCD

KITTSON-MARSHALL RURAL WATER SYSTEM

KOOCHICHING COUNTY SWCD LAC QUI PARLE COUNTY SWCD

LAC QUI PARLE-YELLOW MEDICINE SWCD

LK. AGASSIZ SPEC. EDUC. COOP LK AGASSIZ REGIONAL LIBRARY

LAKE COUNTY SWCD

LAKE MINNETONKA CABLE COMMUNICATIONS COMM.

LAKE MINNETONKA CONS. DIST LAKES COMMUNITY RECREATION LEAF RIVER ED. DIST. #61--6961 LEAGUE OF MINN. CITIES

LINCOLN COUNTY SWCD LOCAL GOV. INFO. SYSTEMS LONG LAKE CONS. CNTR.

LYON COUNTY SWCD

MAHNOMEN COUNTY SWCD MARSHALL-BELTRAMI CO. SWCD

MARSHALL COUNTY SWCD

MARSHALL-POLK RURAL WATER SYSTEM

MARTIN COUNTY SWCD

MARTIN-FARIBAULT CO. PRAIRIE LAND SOLID WASTE BD

MCLEOD COUNTY SWCD MEEKER COUNTY SWCD

MEEKER-WRIGHT COUNTY SPECIAL ED. COOP

METROPOLITAN AIRPORTS COMM.

METROPOLITAN COUNCIL METRO INTER CO. ASSN.

METRO LIBRARY SERVICE AGENCY METRO MOSQUITO CONTROL DIST.

METRONET

METRO SPORTS FAC. COMM. METRO TRANSIT COMMISSION METRO WASTE CONTROL COMM.

MIDDLE RIVER/SNAKE RIVER WATERSHED DISTRICT

MID-MINNESOTA DEVELOPMENT COMM. MIDWEST SPEC. ED. COOP #398

MILLE LACS COUNTY SWCD MN. ASSOC. OF URBAN COUNTIES MN. MUNICIPAL UTILITIES ASSOC

MN. SCHOOL DIST. DATA PROCESSING

MN. RIVERLAND TECH. COL. MN_STATE SHERIFES ASSOC.

MN. TEAMSTER PUBLIC & LAW LOCAL 320

MN. VALLEY COOP CENTER MN. VALLEY ED. DIST.

MN. VALLEY REGIONAL LIBRARY MN. VALLEY TRANSIT AUTHORITY

MOOSE LAKE--WINDEMERE MORRISON COUNTY SWCD

MOTOR PATROL

MOWER COUNTY SWCD

MULTI COUNTY NURSING SE NEW RICHLAND CARE CNTR. NICOLLET COUNTY SWCD

NOBLES COUNTY SWCD NORMAN COUNTY SWCD

NORTH CENTRAL SUBURBAN CABLE COMM.

NORTH COUNTRY LIBRARY COOP N COUNTRY VOC. COOP CNTR. BEMIDJI TECHNICAL COLLEGE

NE ED. COOP SERV UNIT NORTHEAST ED. DIST. #6033

NORTHEAST MN. OFFICE OF JOB TRAINING NORTHERN LIGHTS LIBRARY NETWORK

NORTH FORK CROW RIVER WATERSHED DISTRICT NORTH KITTSON COUNTY RURAL WATER SYSTEM

NORTH METRO MAYORS ASSOCIATION

NORTH ST. LOUIS COUNTY SWCD

NORTHWEST ECSU

NW HENNEPIN HUMAN SERVICES

NW MIGRANT REGION

NW REGIONAL DEVEL. COMM.

NW REGIONAL INTERDISTRICT COUNCIL

NW SUB. CABLE COMM. OLMSTED COUNTY SWCD

OTTERTAIL LAKES AREA SEWER DIST. PACT 4 FAMILIES COLLABORATIVE

PENNINGTON COUNTY SWCD

PENNINGTON-RED LAKE COUNTY INTER COUNTY NURSING SERVICE

PELICAN RIVER WATERSHED DIST

PINE COUNTY SWCD PINE POINT EXP. SCHOOL

PINE RIVER SANITARY DISTRICT

PINE TO PRAIRIE COOPERATIVE CENTER

PIONEERLAND LIBRARY SYSTEM

PIPESTONE COUNTY SWCD

PLAINVIEW-ELGIN WASTEWATER DIST.

PLUM CREEK LIBRARY SYSTEM

POPE COUNTY SWCD

PRAIRIE LAKES DETENTION CENTER

MISCELLANEOUS

ADAMS HEALTH CARE CNTR AITKIN COUNTY SWCD

ALEXANDRIA LAKE AREA SANITARY DIST.

ANOKA COUNTY SWCD

ARROWHEAD LIBRARY SYSTEM

ARROWHEAD REGIONAL DEVEL. COMM.

ASSN. OF MN. COUNTIES

BATTLE LAKE MOTOR PAT. ASSN.

BECKER COUNTY SWCD BELTRAMI COUNTY SWCD

BEMIDJI R.I.C.

BENTON COUNTY SWCD

BENTON-STEARNS COUNTY SPECIAL EDUCATION COOP

BIG STONE COUNTY SWCD BLUE EARTH COUNTY

BLUE EARTH RIVER BASIN INITIATIVE

BRAHAM-ISANTI-MILACA JOINT POWERS BD.

BRAHAM-MORA-PINE CITY JOINT POWERS BD.

BROWN COUNTY SWCD

BOARD OF PUBLIC DEFENDERS

BOIS DE SIOUX WATERSHED DIST. BOVEY COLERAINE TREATMENT

PLANT COMM.

CARVER-SCOTT COOP CTR. CASS COUNTY SWCD

CARLTON COUNTY SWCD CARVER COUNTY SWCD

CENTRAL MN. EDUCATION RESEARCH DEVELOPEMENT COUNCIL

CENTRAL MN ECSU

CENTRAL ST CROIX VALLEY CABLE COMMISSION

CIRCLE PINES-LEXINGTON JNT. POLICE COMM.

CHISAGO COUNTY SWCD

CHISHOLM-HIBBING AIRPORT COMM.

CLAY COUNTY SWCD

CLEARWATER COUNTY NURSING SERVICE

CLEARWATER COUNTY SWCD

CLEARWATER RIVER WATERSHED DIST.

COTTONWOOD COUNTY SWCD CROOKSTON DEVELOPMENT AUTH.

CROW WING COUNTY SWCD

DAKOTA COUNTY SWCD DELAVIN-EASTON PUBLIC SAFETY

DES MOINES VALLEY NURSING SERVICE DOUGLAS COUNTY SWCD DODGE COUNTY SWCD

Public Employees Retirement Association of Minnesota

PRIOR LAKE-SPRING LAKE WATERSHED DIST.

PUBLIC EMPLOYEES

RETIREMENT ASSOCIATION

RANGE ASSN. OF MUNICIPALITIES RED LAKE WATERSHED DISTRICT REGION 8 SW & W CENTRAL ECSU

RED LAKE COUNTY SWCD

RED LAKE FALLS AREA SPECIAL ED. COOP

RED RIVER VALLEY VOC. COOP CNT.

REDWOOD-COTTONWOOD RIVER CONTROL

AREA

REDWOOD COUNTY SWCD REGION 5 DEVELOPMENT COMM.

REGION 1 ESV

REGION 9 SOUTH CENTRAL ECSU

RENVILLE COUNTY SWCD RICE COUNTY SWCD

ROSEAU COUNTY SWCD

RICE CREEK WATERSHED DISTRICT

RIVER BEND SPECIAL ED. COOP

ROCK COUNTY RURAL WATER SYSTEM

RUNESTONE COMM. CENTER RUNESTONE ED. DIST. #6014

RURAL FIRE ASSN

ST. BONIFACIUS-MINNESTRISTA

POLICE COMM.

ST. CLOUD AREA PLANNING ORGANIZATION

ST. CLOUD METRO TRANSIT COMM.

ST. LOUIS COUNTY NORTHWOODS

SOLID WASTE COMM.

SAUK CENTRE WATERSHED DIST.

SCOTT COUNTY SWCD

SCOTT JOINT CITY PROSECUTION

SERPENT LAKE SANITARY SEWER DIST.

SHERBURNE COUNTY SWCD

SIBLEY COUNTY SWCD

SO CENTRAL ED. COOP SERV UNIT

SO CENTRAL EDUCATIONAL DIST.

SO CENTRAL MINNESOTA INTER-LIBRARY EXCHANGE SE MINN ED. COOP SERVICE UNIT

SOUTHERN MN MUN POWER AGENCY

SO LAKE MINNETONKA PUBLIC SAFETY DEPT.

SO ST. LOUIS COUNTY SOLID WASTE COMMISSION

SO ST. LOUIS COUNTY SWCD

SW MULTI-CO. INTERLIB EXCHANGE

SW & W CENTRAL ED. COOP SERV UNIT

SW REGIONAL DEVELOPMENT COMM

SPRING GROVE AMBULANCE CORP.

STATE COMM. COLLEGE BD.

STATE OF MN. MILITARY AFFAIRS FIREFIGHTERS

STATE SUPREME COURT JUDICIAL DISTRICTS

STEARNS COUNTY SWCD

STEELE COUNTY SWCD

STEVENS COUNTY SWCD

SUB SCHOOL EMP. #284

SUNNYSIDE NURSING HOME

SWIFT COUNTY SWCD

TODD COUNTY SWCD

TOWNSHIP MAIN ASSC.

TRAVERSE COUNTY SWCD

TRAVERSE DES SIOUX LIBRARY SYSTEM

TRI-COUNTY BIOSOLIDS DISPOSAL AUTHORITY

TWO RIVERS WATERSHED DIST.

UPPER MN. RIVER WATERSHED DISTRICT

UPPER MN. VALLEY REGIONAL

DEVELOPMENT COMM.

U OF M POLICE OFFICERS

VIKING REGIONAL LIBRARY SYSTEM

WADENA COUNTY SWCD

WASECA COUNTY SWCD

WASHINGTON COUNTY SWCD

WASIOJA EDUC, TECH, COOP, #6048

WATONWAN COUNTY SWCD

WEST CENTRAL AREA ON AGING

WEST CENTRAL ECSU

WESTERN LAKE SUPERIOR SANITARY DIST.

WEST HENNEPIN CO. HUMAN SERVICES

WEST HENNEPIN PUBLIC

SAFETY DEPT.

WEST METRO FIRE-RESCUE DIST.

WEST OTTERTAIL COUNTY SWCD

WEST POLK COUNTY SWCD

WILKIN COUNTY SWCD

WINDOM AREA HOSPITAL

WINONA COUNTY SWCD

WRIGHT VOC. CENTER

YELLOW MEDICINE COUNTY SWCD

YELLOW MEDICINE RWD

POLICE AND FIRE **RELIEF ASSOCIATIONS** CONSOLIDATED WITH PERA

ALBERT LEA FIRE

ALBERT LEA POLICE

ANOKA POLICE

AUSTIN FIRE

AUSTIN POLICE

BLOOMINGTON POLICE

BRAINERD POLICE

BUHL POLICE

CHISHOLM FIRE

CHISHOLM POLICE

COLUMBIA HEIGHTS FIRE

COLUMBIA HEIGHTS POLICE

CROOKSTON FIRE

CRYSTAL POLICE

DULUTH FIRE

DULUTH POLICE

FARIBAULT FIRE

FARIBAULT POLICE

FRIDLEY POLICE

HIBBING FIRE

HIBBING POLICE

MANKATO FIRE NEW ULM POLICE

RED WING FIRE

RED WING POLICE

RICHFIELD POLICE

ROCHESTER FIRE

ROCHESTER POLICE

ST. CLOUD FIRE

ST. CLOUD POLICE

ST. LOUIS PARK FIRE

ST. LOUIS PARK POLICE

ST. PAUL FIRE

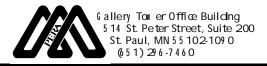
ST. PAUL POLICE

SO ST. PAUL FIRE

WEST ST. PAUL FIRE

WEST ST. PAUL POLICE WINONA FIRE

WINONA POLICE



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 1999



Teachers Retirement Association

A Pension Trust Fund of the State of Minnesota

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 1999



Teachers Retirement Association

A Pension Trust Fund of the State of Minnesota

Gary Austin

Executive Director

17 West Exchange Street, Suite 500 Saint Paul, MN 55102 (800) 657-3669 (651) 296-2409 www.tra.state.mn.us

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers Retirement Association, Minnesota

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Letter of Transmittal



Gary Austin Executive Director

Teachers Retirement Association



December 31, 1999

Members of the Board of Trustees Teachers Retirement Association 17 West Exchange Street Saint Paul, MN 55102

Dear Trustee:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Teachers Retirement Association (TRA) for the fiscal year ended June 30, 1999, our 68th year of service. This report includes the following five sections:

- Introductory Section describing our organizational structure and nature of operations,
- **Financial Section** containing the general purpose financial statements, notes to the financial statements, actuarial disclosures and the opinion of our independent auditor,
- Investment Section highlighting our asset management and investment performance,
- Actuarial Section containing the certification and results of the actuarial valuation performed by Milliman & Robertson as of July 1, 1999, and
- Statistical Section summarizing TRA plan benefits and illustrating both current and historical data of interest.

We are solely responsible for the content of this report, including its financial statements, that should be helpful in understanding information about the pension fund and comparing our operating results with those of other teacher retirement systems.

Reporting Entity

Although you, as members of the Board of Trustees, have a broad scope of authority in the operations and management of TRA, the pension fund is governed by federal laws and state statutes. For financial reporting purposes, TRA is considered a pension trust fund of the State of Minnesota.

Accounting Basis and Internal Control

TRA follows the provisions of statements promulgated by the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the accrual basis of accounting; revenues are recorded when earned and expenditures recorded when the underlying obligation is incurred. Investments are presented at fair market value. We also maintain a system of internal controls designed to assure responsible safeguarding of assets and reliable financial records.

Financial Highlights

The TRA Statement of Plan Net Assets stands at over \$16 billion. The continued exceptional performance in the investment markets over the past decade is the primary reason for the continued growth in the asset base. In the past five years, the value of TRA assets has more than doubled.

For the first time, TRA's \$8.6 billion in assets in the Minnesota Post Retirement Investment Fund (Post Fund) for retired members exceeds TRA's \$8.1 billion in assets in the active member fund. This phenomenon is reflective of TRA's growing base of retirees and other benefit recipients while the number of active members has remained relatively stable for the past decade.

The major sources of revenue for TRA are employee contributions, employer contributions, and investment earnings. Total revenues for fiscal year 1999 were \$2 billion, a decrease of 31 percent from the previous year's total of \$2.9 billion. Smaller but still strong investment returns accounted for much of the decrease. A decrease in employer contributions on April 1, 1998 also contributed to the reduction in revenue.

The expenditures from the fund consist primarily of payments made to members and beneficiaries for retirement, disability, or survivor benefits. In total, benefit payments for fiscal year 1999 were \$621 million, an increase of over 16 percent from the previous fiscal year. Eligible members may also choose to withdraw their contributions from the fund upon leaving employment. For fiscal year 1999, refunds to members were over \$6 million. In total, benefit payments account for over 98 percent of our operating

expenses. Administrative expenses for the year were about \$8 million.

As of June 30, 1999, TRA had 458 reporting employer units, 68,613 active members and a total of 29,749 retirees, survivors, beneficiaries and disabilitants who were receiving monthly benefits.

Actuarial Funding

The actuary retained by the Legislative Commission on Pensions and Retirement (LCPR) determines the actuarial liabilities and reserves of the pension fund under the Entry Age Normal Cost Method. Our total net assets on an actuarial basis increased during the fiscal year from \$12.7 billion to \$14 billion. The total required reserves necessary to fund current and future retirees of the fund also increased from \$12.0 billion to \$13.3 billion. The comparison of net assets to required reserves shows that the funding ratio for fiscal year 1999 was 105.67 percent, essentially the same as the comparable 105.66 percent for fiscal year 1998 and the third consecutive year in which the TRA fund is considered fully funded from an actuarial standpoint. Accordingly, TRA has eliminated its unfunded actuarial liability. As recently as five years ago, the TRA unfunded liability stood at approximately \$1.5 billion. Significant actuarial gains resulting from a favorable investment market and lower than expected increases in members' salaries over this period accounted for the amortization of the unfunded liability.

Investment Strategies

All TRA assets are invested under the authority and direction of the State Board of Investment (SBI). The SBI has developed strategic asset allocation and other investment policies to represent the long-term funding needs of our members. The SBI, along with its Investment Advisory Council (IAC), also continually reviews its policies to ensure sufficient assets are available to finance promised benefits. The executive directors of the three statewide retirement systems sit on the IAC and represent their members in its role to advise the SBI on investment related matters.

Fiscal year 1999 was another strong year for most financial assets. Amid continued low inflation and positive corporate earnings reports, the U.S. stock

market produced exceptionally strong returns for the fifth consecutive year. The Wilshire 5000 increased 19.6 percent which is significantly more than its historical average. With rising long-term interest rates and poor performance in the corporate sector for the 12month period, the U.S. bond market, as measured by the Lehman Brothers Aggregate Bond Index, provided a gain of 3.1 percent, which is less than its historical average.

The performance of international stock markets was mixed during the year. Developed markets lagged the U.S. market and were below historical averages. The Morgan Stanley Capital International index of Europe, Australia and the Far East (EAFE) gained 7.6 percent for the twelve months ended June 30, 1999. The markets of developing countries, often referred to as "emerging markets," performed well, returning 28.7 percent over the fiscal year.

Investment Results

Within this investment environment, the retirement assets under the SBI's control performed well:

- The Basic Retirement Funds (Basic Fund) for active members gained 11.3 percent during fiscal year 1999. The Basic Fund benefited from its high U.S. stock exposure as well as strong returns from international equities.
- The Post Fund for retired members gained 12.1 percent for the fiscal year. This gain, combined with strong returns in prior years, will provide a lifetime post retirement benefit increase of 11.14 percent for eligible retirees.

Economic Conditions and Outlook

Minnesota's economy continued its superb performance during the 1999 fiscal year. Personal income grew by 5.9 percent, 0.3 percent greater than the U.S. average of 5.6 percent, despite extremely low agricultural commodity prices. The state's unemployment rate continued to be among the lowest in the nation, reaching an all time low of 2.1 percent in April. For fiscal 1999, unemployment in Minnesota averaged 2.4 percent on a seasonally adjusted basis, down from fiscal

1998's average of 2.8 percent. Nationally, seasonally adjusted unemployment rates averaged 4.4 percent during fiscal 1999. Even with these low unemployment rates and historically high labor force participation rates, job growth was strong. During fiscal 1999, payroll employment grew by a healthy 1.8 percent, with more than 45,000 new jobs being added. Nationally, payroll employment grew by 2.1 percent.

Minnesota's economy is projected to grow at the same rate as its U.S. counterpart during fiscal 2000. The strengthening of Asian economies will be important, since Minnesota is among the leaders in the proportion of manufacturing output exported to Asia. While continuing tight labor markets are expected to hold job growth to levels slightly below the U.S. averages, wage growth is expected to match the U.S. average as labor shortages lead to use of the existing work force in more productive and higher paying positions. Federal farm disaster assistance will keep farm incomes in fiscal 2000 near the average of the nineties, but that assistance does nothing to remedy the longer term problems facing American agriculture.

Professional Services

We purchase actuarial services from the firm Buck Consultants of San Francisco, California. The annual actuarial valuation of the pension fund is prepared by Milliman & Robertson, Inc., the actuary retained by the Legislative Commission on Pensions and Retirement to prepare actuarial reports for all the statewide retirement plans.

The Office of the Attorney General provides legal counsel to our Board of Trustees and the State Office of the Legislative Auditor conducts an annual financial audit of the pension fund and prepares a report. (See pages 12-13.) All financial transactions, including the disbursements from the pension fund, are processed through the centralized controls of the Minnesota Accounting and Procurement System, under the supervision of the state departments of Finance and Administration.

Financial Communication

An annual statement of account for fiscal year 1999 was mailed to each active member in October 1999. This statement provides current and cumulative information related to salaries, contributions, and service credit. Projected and deferred retirement benefit estimates are also provided for eligible members. A plan summary with financial and actuarial data for the year ended June 30, 1999 will be distributed to each active and retired member in the Winter 2000 edition of the TRIB, our quarterly newsletter.

We also have initiated a new effort to serve our members who are no longer actively teaching, but have chosen to leave their member contributions with TRA. In November 1999, inactive TRA members received their first Annual Statement of Account balance with contribution and service data.

A comprehensive Benefit Handbook containing financial and plan information is nearly finished and will be mailed to all active members early in 2000.

Customer Services

Meeting the demands of today while planning to improve the quality of service in the future is a daily two-pronged challenge at TRA. Both goals were met through strong efforts by TRA employees during the past fiscal year. 1999 saw a record number of teachers retiring, mainly due to the applicability of a little-known benefit clause in TRA law for certain teachers first hired prior to July 1, 1969. In mid-1998, increasing numbers of retiring TRA members were eligible for an optional higher benefit called the Improved Money Purchase (IMP) savings clause. This savings clause, inserted into law by the 1973 Legislature, allows members who did not formally elect one of the defined benefit options by June 30, 1972 to retain eligibility for the defined contribution IMP program which had been in place at the time they were first employed. The savings clause allows for benefits to be calculated under the High-Five Formula or IMP, whichever is larger. Since 1973, the savings clause has been there for eligible retiring members, but was seldom used.

Strong investment returns have produced higher than anticipated IMP interest rates. The higher rates, compounded onto large account balances, have resulted in larger monthly benefit payments under IMP than under the High-Five Formula for some members. Over 3,000 teachers retired during the fiscal year, nearly half of whom had their benefits calculated under the IMP

provision. Demand for counseling services was unprecedented as eligible members needed to reassess their retirement planning. Nearly 2,000 IMP eligible members remain active after July 1, 1999 and we are targeting mailings and other services specifically to their needs.

The passage of the 1999 legislation authorizing the purchase of prior service also generated thousands of inquiries from members interested in their eligibility and estimated cost for past service.

To meet these pre-retirement information demands, we enhanced the features of our World Wide Web site, www.tra.state.mn.us. Members are now able to interactively generate benefit estimates based on salary and service variables they select. In addition, an estimator was provided to calculate the cost for members interested in purchasing various amounts of prior service credit. Even with these options, our individual pre-retirement counseling sessions for members approaching retirement remain as one of our most requested services.

These retirement counseling services take place in both our main Saint Paul office and at 15 locations throughout the state. Large and small group presentations are also now offered for those desiring general information on TRA retirement and benefit issues. The quarterly newsletter, the TRIB, is mailed to all active and retired members. Our web site is updated regularly with the latest news of TRA events and happenings.

Beyond the current workload, we also have employees working on improving the services we plan to offer in the future. During fiscal year 1999, we implemented an electronic document imaging system and began converting historical paper records into an imaged format. The electronic flow of documents increases the efficiency of our benefit processing and provides the means to safeguard critical records in the event of a disaster or business interruption.

A team of TRA employees also completed a general systems design of major administrative processes during the fiscal year. The design was key to the issuance of a Request for Proposal (RFP) for a complete rewriting of our systems applications. We are presently evaluating proposals for this major effort and

intend to recommend one vendor to the Board of Trustees early in 2000. Detailed design and programming of TRA's major business functions would proceed in stages over a four-year period.

Legislation and Initiatives

Two major TRA initiatives were passed by the 1999 Legislature and signed by Governor Ventura. The first permits the purchase of service credit for out-of-state service, certain leaves of absences and service at private or parochial schools. The cost of the service is based on an actuarial formula factoring in the incremental benefit increase of the additional service plus recognizing the member will likely retire sooner than had been previously anticipated. This optional purchase of service provision was used by 22 members before the June 30th fiscal year end.

The second major legislative success was passage of authorization to construct a new office building housing the administrative offices of TRA with the Public Employees Retirement Association (PERA) and the Minnesota State Retirement System (MSRS). Financing of the building will be shared among the three retirement agencies with TRA expected to retain a 40 percent ownership interest. A land site north of the State Capitol in Saint Paul has been purchased. Groundbreaking is expected to begin in the Spring of 2000 with occupancy slated for the fall of 2001. The long-term financial benefits of ownership as opposed to leasing supported the decision to build. In addition, we believe member services will improve through a combined location, adequate parking, and facilities designed to support group retirement counseling.

We expect various benefit improvements will be proposed to the 2000 Legislature. One major concern is management's goal to maintain adequate pre-funding of promised benefits. We will closely scrutinize all benefit improvement proposals, obtain actuarial cost estimates, and provide financial and demographic data to legislators for their consideration.

National Recognition

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial

Reporting to the Teachers Retirement Association for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1998. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A reproduction of this award appears in the Introductory section of this report. Its attainment, our first, represents a significant accomplishment by TRA management and employees who contributed to the contents and production of the publication.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for the 1999 certificate.

Acknowledgments

The preparation of this report is possible only through the combined efforts of our employees, employer units, and professional consultants. It is intended to provide a complete and reliable portrayal of the financial status of the pension fund. A copy is mailed to each public school in the state.

We would like to thank you, our Board of Trustees, our advisors, employees, and the many people who diligently work to ensure the successful operation and financial soundness of our pension fund.

Respectfully submitted,

Ly festin

Gary Austin **Executive Director** John Wicklund Assistant Executive Director of Administration

Board of Trustees

As of December 1, 1999

President

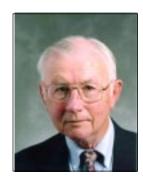


Carol F. Ackerson Elected Member New Ulm, MN

Vice President



Curtis D. Hutchens Elected Member St. Cloud, MN



Vernell R. Jackels Retiree Representative Winona, MN



Martha Lee (Marti) Zins Elected Member Hopkins, MN



Sandy Schaefer Elected Member Fairfax, MN



Bob Lowe Minnesota School Boards Association Representative



Barry Sullivan Representing Christine Jax Commissioner of Children, Families, and Learning



Bill Eisele Representing Pam Wheelock Commissioner of Finance

Administration



Gary Austin Executive Director



John Wicklund **Assistant Director** ofAdministration



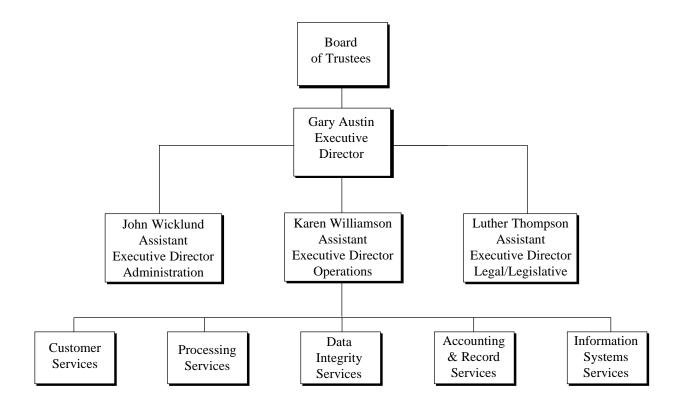
Karen Williamson Assistant Director of**Operations**



Luther Thompson Assistant Director Legal and Legislative Services

Administrative Organization

As of December 1999



Consulting Services

Actuary

Buck Consultants San Francisco, California

Auditor

Office of the Legislative Auditor Saint Paul, Minnesota

Legal Counsel

Office of the Attorney General Saint Paul, Minnesota

Medical Advisor

Minnesota Department of Health Minneapolis, Minnesota

Mission Statement

TRA provides retirement, disability and death benefits to Minnesota college faculty, administrators, public school teachers, retirees, their families and beneficiaries.

Our mission is to enhance the quality of life for Minnesota teachers and their beneficiaries and to assist them in planning for an independent and financially secure retirement.

To this end we are committed to offering quality customer services by providing retirement counseling, maintaining member data, administering funds, communicating accurate information and delivering benefits.

Our Values

Ensure that all information received, maintained and provided is clear and accurate. Accuracy

Quality Make high-quality services accessible to our customers.

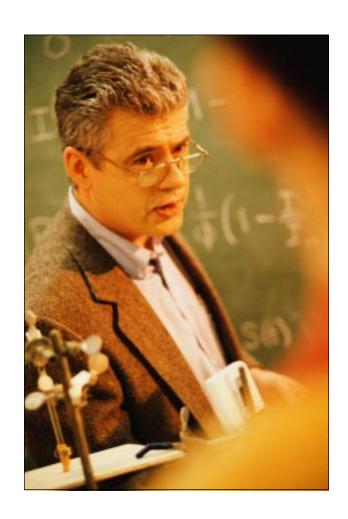
Timeliness Provide timely receipt and dissemination of information.

Efficiency Make efficient use of technological and human resources in a team environment.

Employee Provide ongoing employee development that encourages cooperation and mutual respect,

Excellence focuses on common goals and recognizes superior performance.

Financial Section





Independent Auditor's Report

Board of Trustees and **Executive Director** Teachers Retirement Association

We have audited the accompanying statement of plan net assets of the Teachers Retirement Association as of June 30, 1999, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TRA at June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The required supplementary information on pages 24 to 26 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We did not audit this information and do not express an opinion on it. The supplementary information is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted mainly of inquiries of management regarding the methods of measurement and presentation for the Schedule of Funding Progress, Schedule of Employer Contributions, and Notes to Required Supplementary Information.

We were unable to apply to the year 2000 required supplementary information certain procedures prescribed by professional standards because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria

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Board of Trustees and Executive Director Teachers Retirement Association Page 2

regarding the matter to be disclosed have not been established. In addition, we do not provide assurance that the TRA is or will become year 2000 compliant, that its remediation efforts will be successful in whole or in part, or that parties with which TRA does business are or will become year 2000 compliant.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information on pages 27 to 30 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Deputy Legislative Auditor

In accordance with *Government Auditing Standards*, we have issued a report dated December 1, 1999, on our consideration of TRA's internal control structure and compliance with laws and regulations.

James R. Nobles
Legislative Auditor

December 1, 1999

Teachers Retirement Fund Statement of Plan Net Assets

As of June 30, 1999

sets		
Cash and short-term investments		
Cash	\$	1,079,876
Short-term investments		79,523,229
Total Cash and short-term investments	\$	80,603,105
Receivables		
Employer Contributions	\$	22,822,857
Investment Income		332,185
Total Receivables	\$	23,155,042
Investments (at fair value)		
Equity in the Post Fund	\$	8,669,445,089
Fixed Income Pool		1,683,900,692
Venture Capital Pool		400,748,613
Indexed Equity Pool		1,454,379,194
Real Estate Fund Pool		303,322,179
Resource Fund Pool		62,172,585
Domestic Equity Pool		3,015,586,999
Global Equity Pool		1,192,530,779
Total Investments	\$ 10	6,782,086,130
Securities Lending Collateral	\$	1,628,456,784
Fixed Assets Net of Accumulated Depreciation	\$	1,293,376
Total Assets	\$ 13	8,515,594,437
Liabilities		
Current		
Accounts Payable	\$	6,842,740
Due to the Post Fund		187,451,062
Accrued Compensated Absences		415,316
Securities Lending Collateral		1,628,456,784
Total Liabilities		1,823,165,902
Net Assets Held in Trust for Pension Benefits	<u>\$ 1</u>	6,692,428,535

(A Schedule of Funding Progress for the plan is presented on page 24.)

The accompanying notes are an integral part of this statement.

Teachers Retirement Fund

Statement of Changes in Plan Net Assets For the fiscal year ended June 30, 1999

Additions

Contributions	
Employee	\$ 132,040,005
Employer	 130,525,591
Total Contributions	\$ 262,565,596
Net Investment Income	
Investment Income	\$ 1,778,606,093
Less Investment Expense	 (10,519,342)
Net Investment Income	\$ 1,768,086,751
From Securities Lending Activities	
Securities Lending Income	\$ 84,092,386
Securities Lending Expenses:	
Borrower Rebates	(74,198,269)
Management Fees	(2,576,801)
Total Securities Lending Expenses	 (76,775,070)
Net Income from Securities Lending	7,317,316
Total Net Investment Income	\$ 1,775,404,067
Other Income	\$ 1,587,211
Total Additions	\$ 2,039,556,874
Deductions	
Retirement Benefits Paid	\$ 620,937,964
Refunds of Contributions to Members	6,271,448
Administrative Expenses	7,976,908
Interest Paid to the Post Fund	 1,764,550
Total Deductions	\$ 636,950,870
Net Increase	\$ 1,402,606,004
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	\$ 15,289,822,531
End of Year	 16,692,428,535

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 1999

I. Plan Description

A. Organization

The Teachers Retirement Association (TRA) is an administrator of a multi-employer, costsharing retirement fund. TRA administers a Basic plan (without Social Security coverage) and a Coordinated Plan (coordinated with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. Assets of the fund may be used to pay benefits to both Basic and Coordinated members without legal restriction.

B. Participating Members and Employers

Teachers employed in Minnesota's public elementary and secondary schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Minneapolis, Duluth, and St. Paul and by the University of Minnesota system) are required to be TRA members.

State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within 90 days of first employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU. A teacher employed by MnSCU and electing coverage by DCR is not a member of TRA except for purposes of Social Security coverage.

A schedule of employer units and membership is presented in Figure 1.

C. Benefit Provisions

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon the death of eligible members. All benefits vest after three years of eligible

service credit. The defined retirement benefits are based on a member's highest average salary for any consecutive 60-months of allowable service, age and years of formula service credit at termination of service. TRA members belong to either the Basic or Coordinated Plan. Coordinated members are covered by Social Security while Basic members are not. All new TRA members must participate in the Coordinated Plan. TRA currently has less than 100 members who participate as Basic members.

Two methods, or tiers, are used to compute benefits for Coordinated and Basic members who were first hired prior to July 1, 1989.

Figure 1	
Employer Uni	ts
	June 30 1999
Independent school districts	344
Joint powers units	41
Colleges and universities	39
State agencies	17
Charter schools	15
Professional organizations	2
Total Employer Units	<u>458</u>
Membership	
	June 30 1999
Retirees, disabilitants and	
beneficiaries receiving benefits	29,749
Terminated employees with	
deferred vested benefits	7,020
Total	36,769
	===
Current employees Vested	51 820
Non-vested	51,839 16,774
	
Total	<u>68,613</u>

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Under Tier I, the annuity accrual rate for Basic members is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. For a Coordinated member, the annuity accrual rate is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent for each remaining year. Under Tier II, the annuity accrual rate is 2.7 percent of average salary for Basic members and 1.7 percent for Coordinated members. Coordinated members first hired after June 30, 1989 are only eligible for Tier II benefits.

A full annuity is available when age plus years of service equals at least 90 for members whose annuity is calculated under Tier I. For members first hired after June 30, 1989, full retirement annuity benefits are available upon reaching their normal Social Security retirement age, not to exceed 66 years of age. A reduced retirement annuity is also available to eligible members seeking retirement early.

The benefit provisions stated in the preceding paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated members who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated their public service. Pension benefits are funded from member and employer contributions and income from investment of fund assets.

II. Significant Accounting Policies and Plan Asset Matters

A. Reporting Entity

TRA functions as a statutory entity created by the Laws of 1931, Chapter 406. The Association maintains rights to sue or be sued in its own name and to hold property in its own name. For financial reporting purposes, TRA is considered a pension trust fund of the State of Minnesota and is included in the State's Comprehensive Annual Financial Report with its fiduciary funds.

The State of Minnesota acts as a fiduciary and trustee of TRA's funds. The Board of Trustees has significant independence in the operations and management of the Association, though the State Legislature actually determines the contribution rates for members and employers. The Board of Trustees is responsible for TRA's administration, but the State Board of Investment (SBI) is responsible for investing plan assets.

B. Basis of Accounting

TRA financial statements for its defined benefit fund are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenue in the year in which they are earned and become measurable. Expenses including benefit payments and refunds are recorded when the liability is incurred.

C. Investment Policies

- 1. Pursuant to Minnesota Statutes, Chapter 11A, the state's retirement fund assets are commingled in various pooled investment accounts, administered by the State Board of Investment (SBI). As of June 30, 1999, the participation shares in the pooled accounts at market value for the TRA Active Fund was approximately 42 percent. The TRA share of the net assets of the Minnesota Post Retirement Investment Fund (Post Fund) at market values totaled 44.9 percent. Figure 2 provides specific totals.
- Minnesota Statutes, section 11A.24 broadly restricts retirement fund investments to obligations and stocks of United States and Canadian governments, their agencies and their registered corporations; short-term obligations of specified high quality;

- restricted participation as a limited partner in venture capital, real estate or resource equity investments; restricted participation in registered mutual funds; and some qualified foreign instruments.
- 3. Investments are categorized to give an indication of the level of risk that is assumed. Risk Category 1 includes investments that are insured or registered, or for which the securities are held by the state or its agent in the state's name. Risk Category 2 includes uninsured and unregistered investments for which the securities are held by the broker, dealer, or counterpart's trust or agent in the state's name. Risk Category 3 includes uninsured or unregistered investments for which the securities held by the broker, dealer, or by its trust department or agent, but not in the state's name. TRA does not own any investments that are considered securities for purposes of assessing credit
- risk. All TRA investments are in SBIadministered pools or open-end mutual funds. These investments are not considered for purposes of credit risk classification. Investments in any one organization do not represent 5 percent or more of plan net assets.
- 4. Information about the primary government's (State of Minnesota) investments, including credit risk classification, can be obtained from the Department of Finance, 400 Centennial Office Building, 658 Cedar Street, Saint Paul, Minnesota 55155. Information on investment activity and a listing of specific investments owned by the pooled asset accounts can be obtained from SBI, Suite 200, 590 Park Street, Saint Paul, Minnesota 55103.

D. Method Used to Value Investments

Investments in the pooled accounts are reported at fair value. Figure 2 provides a summary of the cost and market values of the investments as of June 30, 1999 as reported on the Statement of Plan Net Assets. Shortterm investments are reported at cost which approximates fair value. Securities traded on a national or international exchange are valued using the last reported trade price. The fair value of real estate investments is based on independent yearly appraisals. Investments that do not have an established market are reported at estimated fair value.

Investment income is recognized as earned. Accrued investment income of the pooled investment accounts is included in participation in the accounts. Gains or losses on sales or exchanges are recognized on the transaction date.

Figure 2

TRA Investment Portfolio June 30, 1999 **Basic (Active) Fund** Cost Market **Pooled Accounts** Fixed Income \$1,740,571,312 \$1,683,900,692 Domestic Equity 2,557,963,306 3,015,586,999 Indexed Equity 870,970,792 1,454,379,194 Global Equity 1,056,886,984 1,192,530,779 415,550,589 Venture Capital 400,748,613 Real Estate 242,204,589 303,322,179 Resources Pool 83,365,858 62,172,585 Total \$6,967,513,430 \$8,112,641,041 **Short-Term Pooled Cash** 79,523,229 79,523,229 **Post Fund Account** 6,751,681,999 8,669,445,089 Total Invested \$13,798,718,658 \$16,861,609,359

Net Investment Income is summarized on the Statement of Changes in Net Plan Assets. The summarized amounts were \$1,768,086,751 for fiscal year 1999. Figure 3 shows the various components of these composite amounts, including TRA's share of the Minnesota Post Retirement Investment Fund.

The cost of security transactions is included in the transaction price. Administrative expenses of SBI and investment management fees of the external money managers and the state's master custodian for pension fund assets are allocated to the funds participating in the pooled investment accounts. TRA's share of these expenses totaled \$10,519,342.

E. Securities Lending

TRA does not own specific securities, but instead owns shares in pooled funds invested by SBI that is authorized to use securities lending transactions in accordance with Minnesota Statutes, section 356A.06, subdivision 7, and has, pursuant to a Custodial Trust Agreement, authorized State Street Bank and Trust Company, Boston, Massachusetts to act as agent in lending securities to broker-dealers and banks.

During the fiscal year, State Street lent, on behalf of SBI certain securities held by State Street as custodian, and received cash (both United States and foreign currency) and securities issued or guaranteed by the United States government, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan in amounts equal to not less than 100 percent of the market value of the loaned securities.

SBI did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. State Street indemnified SBI by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. There were no such failures by any borrower to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or State Street.

During the fiscal year, SBI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash

Figure 3

Net Investment Income	
Investment Income	1999
Net Appreciation in Fair Value:	
Investment Pools	\$ 72,875,288
Post-Retirement Participation	70,322,097
Interest	118,752,053
Dividends	527,279,991
Net Gain on Sales of Pools	156,898,146
Post Fund	832,478,518
Less: Investment Expense	(10,519,342)
Net Investment Income	\$ 1,768,086,751

collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and SBI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which SBI could not determine. On June 30, 1999, SBI had no credit risk exposure to borrowers. TRA's portion of the collateral held and the market value of securities on loan from SBI as of June 30, 1999 were \$1,628,456,784 and \$1,580,983,295 respectively.

F. Accrued Compensated Absences

Employees of TRA accrue vacation leave, sick leave, and compensatory leave at various rates within limits specified in collective bargaining agreements. Accumulated amounts for compensated absences are accrued when incurred. Such leave is liquidated in cash primarily at the time of termination of employment.

G. Fixed Assets

Fixed assets are capitalized at the time of acquisition at cost. Depreciation is computed on a straight-line method over the useful life of the related assets. The estimated useful lives are three to ten years.

Fixed assets as presented on the June 30, 1999 Statement of Net Assets Available were \$2,458,404 at cost. Accumulated depreciation totaled \$1,165,029 resulting in a net fixed asset value of \$1,293,375.

H. Operating Leases

TRA is committed under lease agreements for rental of office space through April 30, 2001. For accounting purposes, these leases are considered operating leases. Lease

expenditures for fiscal year 1999 totaled \$288,325. Minimum rental payments required as of June 30, 1999 are shown in Figure 4.

Figure 4

Minimum Renta	I Payments
Fiscal Year Ending June 30	Amount
2000	378,184
2001	345,161
Total	\$ 723,345

I. Administrative Expenses and Budget

The annual budget of TRA operations is developed by TRA management and approved by the Board of Trustees. The budget is also sent to the Minnesota Department of Finance for policy analysis and is included in the Governor's Biennial Budget presentation to the legislature. The legislature adopts appropriation and expenditure limitations resulting in an approved budget for the Association.

TRA administrative costs are financed through investment earnings and turnover gains from employer contributions of members obtaining a refund of their employee contributions.

J. Cash

Cash on deposit consists of year-end receipts not processed as of the investment cutoff on June 30. TRA cash funds are held in the state treasury where they are commingled with other state funds. Minnesota Statutes, section 9.031 requires that deposits be secured by depository insurance and collateral shall be in amounts sufficient to ensure that deposits do not exceed 90 percent of the sum of the insured amount and the market value of the collateral. Throughout

fiscal year 1999, the combined depository insurance and collateral was sufficient to meet legal requirements and secure all TRA deposits.

K. Accounts Receivable

Amounts classified as accounts receivable consist primarily of member and employer contributions received after the fiscal year end on salaries earned prior to June 30, 1999. Under Minnesota Statutes, section 354.52, subdivision 4, TRA employers must remit contributions at least monthly.

If contributions are not remitted in a timely manner, interest at a rate of 8.5 percent, compounded annually, is assessed. If contributions are not received within 60 days of notification by TRA, the Commissioner of Finance is authorized to deduct the balance due TRA from state aids or appropriations due to that employer unit.

L. Improved Money Purchase (IMP)

Some TRA members first hired prior to July 1, 1969, are eligible for the Improved Money Purchase (IMP) savings clause of Minnesota Statutes, section 354.55, subdivision 17. Eligibility is limited to those teachers who did not formally elect a specific retirement provision by June 30, 1972. Under the savings clause, eligible members obtain the higher of two benefit provisions: 1) The High-5 Average Formula described previously, or 2) an IMP annuity based on their accumulated employee contributions plus compounded interest and an employer match of 120 percent.

Beginning with fiscal year 1999, significant numbers of retiring members discovered that their IMP benefit was higher than the High-5 Average Formula benefit. This phenomenon occurred as strong annual investment returns generated high interest rates compounding on

large employee contribution balances accumulated after long teaching careers.

Approximately 1,400 members retired during fiscal year 1999 whose benefit was higher under the IMP provision. As of June 30, 1999, TRA estimates that approximately 1,900 IMP-eligible members are still actively teaching.

Actuarially, projected benefits for all TRA members are budgeted at their estimated High-5 Average Formula amount at retirement, not their estimated IMP benefit amount. On page 52, line D5, the actuarial loss of over \$207 million during fiscal year 1999 is largely due to unexpected, higher initial benefits paid to retiring IMP-eligible members.

Due to the fact that IMP eligibility is limited to a closed group of members, TRA management believes that the actuarial impact of remaining IMP-eligible members will not adversely harm the overall financial integrity of the fund. Another mitigating factor is that an actuarial loss associated with IMP is likely to be at least partially offset by an actuarial gain with investment returns. (See page 52, line D2 in comparison to line D5.)

M. Construction of Office Building

The 1999 Legislature authorized the construction of a new building to house the administrative offices of TRA, the Public Employees Retirement Association and the Minnesota State Retirement System. The three statewide retirement agencies will finance the construction costs of the building by backing revenue bonds issued by the Department of Finance. The cost of the project is estimated at \$32 million with TRA projected as a 40 percent owner. Ownership of the building will be in the name of the State of Minnesota, held in trust for each of the three statewide retirement agencies.

No costs related to the project were incurred by June 30, 1999. Substantial activity has occurred since then including purchase of land, space planning, and solicitation of contractors. It is anticipated that the new building, located on Pennsylvania Avenue in Saint Paul, will be ready for occupancy in October, 2001.

III. Contributions Required and Made

Minnesota Statutes, Chapter 354 sets the rates for employee and employer contributions. These rates, expressed as level percentages of annual covered payroll, are determined to accumulate sufficient assets for paying benefits. Level percentage of payroll contribution rates are calculated using the entry age normal actuarial funding method. TRA also uses the level percentage of payroll method to amortize any unfunded liability over a closed period ending June 30, 2020. Currently, no unfunded liability exists.

Contributions totaling \$262,565,596 (\$132,040,005 employee and \$130,525,591 employer) were made in accordance with the actuarially determined contribution requirements. On page 53, contributions are projected as sufficient to meet the required normal costs, amortization of the unfunded liability and administrative costs.

The sufficiency, as a percent of covered payroll is 0.14 percent. This translates into a contribution sufficiency of about \$3.66 million projected for fiscal year 2000. The Legislative Commission on Pensions and Retirement annually reviews the adequacy of TRA's statutory contributions.

IV. Reserve Accounts

A. Minnesota Post Retirement **Investment Fund (Post Fund)**

For all retiring members, the reserves required to pay the cost of retirement benefits are transferred from the TRA Fund to the Post Fund which is

managed by SBI. Participation in the Post Fund is shown at the actuarially determined required reserves level in accordance with Minnesota Statutes, section 11A.18, subdivision 7.

It includes a 6 percent assumed income distribution and any mortality gains or losses as determined by an independent actuary hired by the state legislature. As of June 30, 1999, TRA's share of the net assets of the Post Fund is \$6,751,682,000 at cost and \$8,669,445,089 at market value.

Beginning in fiscal year 1993, the Post Fund income available for distribution is determined using a post-retirement benefit increase formula based on total investment return rather than realized earnings.

This formula contains both an inflation adjustment and an investment component. Annuitants and other individuals receiving benefits as of July 1, 1998 are eligible to receive the full January 1, 2000 benefit increase shown in Figure 5.

Benefit recipients whose effective date of retirement is after July 1, 1998 but before June 2, 1999 receive a prorated amount of the January 1, 2000 benefit increase.

B. Member Reserves

Accumulated member contributions, without interest, less the amounts refunded are recorded in the member reserve. Accumulated member

Figure 5

January 1, 2000 Benefit Increase

Inflation-Based Benefit Increase 1.9% Investment-Based Benefit Increase 9.2436% Total Benefit Increase 11.1436% contributions for current retirees are transferred to the Post Fund upon retirement. Employees who terminate their employment prior to retirement may elect to receive a refund of their contributions plus interest or wait for a deferred benefit.

C. Benefit Reserves

Employer contributions and investment income are recorded in the Benefit Designation. Administrative expenses, survivor and disability benefits, investment management fees, and interest paid to the Post Fund for late reserve transfers are paid from the benefit reserve.

Required Supplemental Schedules

Schedule of Employer Contributions (Unaudited)

(Dollars in Thousands)

	Actuarially Required	Actual Covered	Actual Employee	Annual Required	Actual	
	Contribution Rate		Contributions	Contribution	Employer Contribution*	Percentage Contributed
June 30	(A)	(B)	(C)	$[(A) \times (B)] - (C)$	Contribution*	Contributed
1992	13.04%	\$1,989,624	\$ 91,506	\$167,941	\$162,370	96.68%
1993	13.13%	2,065,881	94,709	176,541	168,071	95.20%
1994	12.75%	2,150,300	100,803	173,360	171,855	99.13%
1995	14.73%	2,204,693	143,536	181,215	179,672	99.15%
1996	14.30%	2,268,390	148,051	176,329	184,495	104.63%
1997	12.78%	2,359,011	154,161	147,321	191,670	130.10%
1998	9.55%**	2,422,957	124,096	107,296	151,323	141.03%
1999	8.39%	2,625,254	132,040	88,219	130,526	147.96%

^{*} Includes contributions from other sources (if applicable).

Schedule of Funding Progress (Unaudited)

(Dollars in Thousands)

		Actuarial			Actual	UAAL
	Actuarial	Accrued	Unfunded		Covered	as Percentage
Actuarial	Value	Liability	\mathbf{AAL}	Funded	Payroll	of Covered
Valuation	of Assets	(AAL)	(UAAL)	Ratio	(Previous FY)	Payroll
Date	(A)	(B)	(B - A)	(A/B)	(C)	$(\mathbf{B} - \mathbf{A}) / (\mathbf{C})$
07/01/92	\$ 6,324,733	\$ 7,662,522	\$1,337,789	82.54%	\$1,989,624	67.24%
07/01/93	7,045,937	8,266,059	1,220,122	85.24%	2,065,881	59.06%
07/01/94	7,611,936	9,115,266	1,503,330	83.51%	2,150,300	69.91%
07/01/95	8,348,124	9,717,623	1,369,499	85.91%	2,204,693	62.12%
07/01/96	9,541,221	10,366,168	824,947	92.04%	2,268,390	36.37%
07/01/97	11,103,759	10,963,637	(140,122)	101.28%	2,359,011	-5.94%
07/01/98	12,727,546	12,046,312	(681,234)	105.66%	2,422,957	-28.12%
07/01/99	14,011,247	13,259,569	(751,678)	105.67%	2,625,254	-28.63%

^{**} Actuarially Received Contribution Rate calculated according to the parameters of GASB 25 using a 30-year amortization of the negative unfunded accrued liability.

Teachers Retirement Association

Notes to the Required Supplemental Schedules (Unaudited)

June 30, 1999

Schedule of Funding Progress

The actuary for the Legislative Commission on Pensions and Retirement conducts a study every four years to determine the accuracy of the economic and demographic assumptions used for long-term TRA funding objectives. If actual actuarial experiences are less favorable than assumed by the actuary, the difference is added to unfunded accrued liabilities. Each time a new benefit is added that applies to service already rendered, an additional unfunded accrued liability is created. Minnesota Statutes, Chapter 356.215 requires that all unfunded accrued liabilities be financed systematically over a closed period ending June 30, 2020.

To illustrate this feature, the TRA benefit formula multiplier was increased by .13 percent per year of service during fiscal year 1994. The benefit was funded solely through an increase in employee contributions effective in fiscal year 1995. Thus, the unfunded actuarial accrued liability rose dramatically for fiscal year 1994.

In an inflationary economy, the value of the dollar is decreasing. In this environment, employee contributions result in a dollar increase in unfunded actuarial accrued liabilities. This occurs at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded liabilities can be misleading. Unfunded actuarial accrued liabilities divided by active employee payroll provide an index which clarifies understanding. The smaller the ratio of unfunded liabilities to covered payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the retirement association is becoming financially stronger or weaker.

As of June 30, 1999, TRA is fully funded from an actuarial standpoint.

Actuarial Assumptions and Method

1. Funding Method

The Entry Age Normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. As of June 30, 1999, no unfunded actuarial accrued liability exists. (See page 52.) Any increases to the unfunded accrued liability resulting from benefit improvements or unfavorable actuarial experience are combined with the outstanding balance and amortized over a closed period ending June 30, 2020.

2. Asset Valuation Method

For actuarial purposes, Minnesota Statutes, section 356.215 requires valuation of all investment securities at cost plus one-third of the unrealized capital gains or losses.

3. Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of July 1, 1999, the date of the most recent actuarial valuation, include:

- Investment return 8.5 percent.
- Inflation rate 5 percent.
- Salary increases An inflation factor of 5 percent, plus a merit factor ranging from .25 percent to 2.25 percent, declining as the member ages.
- Benefit increases after retirement Payment of earnings on retired reserves in excess of 6 percent and an inflation guarantee up to 2.5 percent of the Consumer Price Index (CPI).

4. Year 2000 Disclosure

For many years, TRA has been aware of the Year 2000 (Y2K) deadline looming on December 31, 1999. TRA has had the need to account for birth dates in the 1800s and retirement estimates and payment streams extending into the next millennium. Most of our computer applications were Y2K compliant before the term was coined.

As part of the State of Minnesota's Y2K planning, TRA has actively participated with state officials in identifying and coordinating the work necessary to become Y2K compliant. In November 1998, the State Department of Finance tested and confirmed that the state warrant interface used to generate TRA annuity and refund payments is Y2K compliant.

In 1999, TRA implemented a revised employee refund system that finalized our readiness for our mainframe systems applications. During the fall of 1999, we performed on-going tests of key network hardware and software to verify compliance with Y2K requirements.

In addition, all critical external vendor applications are being monitored and they are expected to be delivered in time to meet the immovable deadline. We are especially following the progress of the hundreds of financial institutions to whom TRA directly deposits benefit checks electronically on behalf of approximately 20,000 of our benefit recipients. TRA is monitoring the compliance efforts of the Minnesota Department of Finance. Minnesota Department of Commerce and the State Treasurer's Office to ensure that members' financial institutions will be able to correctly receive January 1, 2000 benefit payments.

Administrative Expenses

For the Fiscal Year Ended June 30, 1999

Salaries	\$3,015,168
Employer Contributions to Retirement	152,556
Employer Contributions to Social Security	221,278
Insurance Contributions	322,313
Actuarial Services	102,415
Audit Fees	39,926
Computer Support Services	1,909,006
Department Head Expenses	1,498
Depreciation of Office Furniture and Equipment	449,593
Dues and Subscriptions	7,226
Duplicating and Printing Expense	206,629
Employee Training	42,866
Insurance Expense	2,549
Lease of Office and Storage Space	288,325
Legal Fees	42,023
Management Consultant Services	215,053
Medical Services	34,736
Miscellaneous Administrative Expenses	34,725
Postage	300,809
Rental of Office Machines/Furnishings	49,145
Repairs and Maintenance	56,982
State Indirect Costs	57,229
Stationery and Office Supplies	289,628
Telephone	78,415
Travel-Director and Staff	36,114
Travel-Trustees	8,941
Worker's Compensation	2,272
Board Substitute Teachers	1,705
Loss on Disposal of Equipment	7,783
Total Administrative Expenses	\$7,976,908

Teachers Retirement Fund

Schedule of Changes in Plan Net Assets

For Fiscal Year Ended June 30, 1999

Additions Contributions: \$ 131,656,613 Employer Contributions 0 Total Contributions 131,656,613 Investment Income: Net Appreciation in FMV 0 Interest 0 Dividends 0 Net Gain on Sales of Pools 0 Distributed Income from Post Fund 0 Investment management Fees 0 Net Investment Income 0 Net Investment Income 0 Securities Lending Activities: 0 Securities Lending Income 0 Securities Lending Management Fees 0 Oscurities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645			Member
Member Contributions \$ 131,656,613 Employer Contributions 0 Total Contributions 131,656,613 Investment Income: 1 Net Appreciation in FMV 0 Interest 0 Dividends 0 Net Gain on Sales of Pools 0 Distributed Income from Post Fund 0 Investment management Fees 0 Net Investment Income 0 From Securities Lending Activities: 0 Securities Lending Borrower Rebates 0 Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses 5,967,645 Net Increase \$ 125,688,968 Other Changes in	Additions		
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Net Appreciation in FMV	Employer Contributions	_	0
Net Appreciation in FMV 0 Interest 0 Dividends 0 Net Gain on Sales of Pools 0 Distributed Income from Post Fund 0 Investment management Fees 0 Net Investment Income 0 From Securities Lending Activities: 0 Securities Lending Income 0 Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) </td <td>Total Contributions</td> <td></td> <td>131,656,613</td>	Total Contributions		131,656,613
Interest 0 Dividends 0 Net Gain on Sales of Pools 0 Distributed Income from Post Fund 0 Investment management Fees 0 Net Investment Income 0 From Securities Lending Activities: 0 Securities Lending Income 0 Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,6556,613 Deductions \$ 131,6556,613 Deductions \$ 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746 Net Assets Held in Trust for Pension Benefits Beginning of Year	Investment Income:		
Dividends 0 Net Gain on Sales of Pools 0 Distributed Income from Post Fund 0 Investment management Fees 0 Net Investment Income 0 From Securities Lending Activities: 0 Securities Lending Income 0 Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions \$ Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves \$ 125,688,968 Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits	Net Appreciation in FMV		0
Net Gain on Sales of Pools 0 Distributed Income from Post Fund 0 Investment management Fees 0 Net Investment Income 0 From Securities Lending Activities: 0 Securities Lending Income 0 Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions \$ 131,656,613 Deductions \$ 60 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves \$ 125,688,968 Other Changes in Reserves \$ 125,688,968 Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Interest		0
Distributed Income from Post Fund 0 Investment management Fees 0 Net Investment Income 0 From Securities Lending Activities: 0 Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions 0 Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Dividends		0
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From Securities Lending Activities: 0 Securities Lending Income 0 Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits Beginning of Year 1,303,005,687	Investment management Fees		0
Securities Lending Income 0 Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions 0 Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves \$ 125,688,968 Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Net Investment Income		0
Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions 0 Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	From Securities Lending Activities:		
Securities Lending Borrower Rebates 0 Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions 0 Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Securities Lending Income		0
Securities Lending Management Fees 0 Net Income from Securities Lending 0 Other Income 0 Total Additions \$ 131,656,613 Deductions 0 Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687			0
Other Income 0 Total Additions \$ 131,656,613 Deductions 0 Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves \$ 125,688,968 Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687			0
Total Additions \$ 131,656,613 Deductions Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Net Income from Securities Lending		0
Deductions Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Other Income		0
Benefits Paid 0 Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves \$ 125,688,968 Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Total Additions	<u>\$</u>	131,656,613
Refunds of Member Contributions 5,967,645 Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves \$ 110,941,237 Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Deductions		
Administrative Expenses 0 Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves \$ 110,941,237 Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Benefits Paid		0
Interest Paid Post Fund 0 Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves \$ 110,941,237 Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Refunds of Member Contributions		5,967,645
Total Expenses \$ 5,967,645 Net Increase \$ 125,688,968 Other Changes in Reserves \$ 110,941,237 Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Administrative Expenses		0
Net Increase \$ 125,688,968 Other Changes in Reserves (\$ 110,941,237) Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Interest Paid Post Fund		0
Other Changes in Reserves Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits Beginning of Year 1,303,005,687	Total Expenses	<u>\$</u>	5,967,645
Annuities Awarded (\$ 110,941,237) Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Net Increase	\$	125,688,968
Other Transfers 3,825,491 Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Other Changes in Reserves		
Mortality Loss 0 Total Other Changes (\$ 107,115,746) Net Assets Held in Trust for Pension Benefits 1,303,005,687	Annuities Awarded	(\$	110,941,237)
Total Other Changes	Other Transfers		3,825,491
Net Assets Held in Trust for Pension Benefits Beginning of Year	Mortality Loss		0
Beginning of Year	Total Other Changes	<u>(\$</u>	107,115,746)
	Net Assets Held in Trust for Pension Benefits		
	Beginning of Year	_ 1	1,303,005,687

The accompanying notes are an integral part of this statement.

Reserves for 1999

Post Fund	Benefit	Total June 30, 1999
F unu		June 30, 1999
\$ 0	\$ 383,392	\$ 132,040,005
0		130,525,591
0	-	262,565,596
70,322,098	72,875,287	143,197,385
0	118,752,053	118,752,053
0	527,279,991	527,279,991
0	156,898,146	156,898,146
832,478,518	0	832,478,518
0	(10,519,342)	(10,519,342)
902,800,616	865,286,135	1,768,086,751
45,435,807	38,656,579	84,092,386
(40,083,698)	(34,114,571)	(74,198,269)
(1,383,909)	(1,192,892)	(2,576,801)
3,968,200	3,349,116	7,317,316
0		1,587,211
\$ 906,768,816	\$ 1,001,131,445	\$ 2,039,556,874
\$ 608,744,274	\$ 12,193,690	\$ 620,937,964
0	303,803	6,271,448
0	7,976,908	7,976,908
0		1,764,550
\$ 608,744,274	\$ 22,238,951	\$ 636,950,870
\$ 298,024,542	\$ 978,892,494	\$ 1,402,606,004
\$ 937,430,566	(\$ 826,489,329)	(\$ 0)
0	(3,825,491)	0
16,318,990	(16,318,990)	0
\$ 953,749,556		(\$ 0)
7,417,670,992	6,569,145,852	15,289,822,531
\$ 8,669,445,090	-	\$16,692,428,535

Consultant ExpendituresFor the Fiscal Year Ended June 30, 1999

Investment Pool Managers:		
Investment Board	\$	366,050
Financial Control Systems		53,761
Pension Consulting		12,935
Richards & Tierney		53,898
Equity Pool Managers		8,337,836
Bond Pool Managers	_	1,694,862
Total Investment Pool Managers Expenditures	\$	10,519,342
MIS Programmers/Analysts:		
Computer Horizons	\$	191,390
Compuware		908,689
GE Capital		1,012
IBM		34,351
Joe Buus and associates		23,403
Keystone		145,591
Syscom	_	502,310
Total MIS Programmers/Analysts Expenditures	\$	1,806,746
Management:		
Delphi Group	\$	13,326
Ray Clarke and associates	_	215,053
Total Management Expenditures	\$	228,379
Actuarial:		
Buck Consultants	\$	61,452
Milliman & Robertson (LCPR)	_	40,963
Total Actuarial Expenditures	\$_	102,415
Legal:		
Attorney General	\$	40,748
Audit:		
Legislative Auditor	\$	33,545
Pension Benefit Information		6,381
Total Audit Expenditures	\$	39,926
Medical:		
MN Dept of Health	\$_	33,450
Total Consultant Expenditures	\$_	12,771,006

Investments Section



Investment Summary

(Prepared by TRA management with data supplied by the State Board of Investment)

The assets of the Minnesota Teachers Retirement Association (TRA) are invested under the direction and authority of the State Board of Investment (SBI). The investment portfolio for the active members of TRA has a market value of approximately \$8.1 billion. In addition, TRA's share of the assets of the Minnesota Post Retirement Investment Fund (Post Fund), from which retiree benefits are paid, is approximately \$8.67 billion.

The five-member SBI Board consists of Governor Jesse Ventura (Chair), Secretary of State Mary Kiffmeyer, State Treasurer Carol Johnson, Attorney General Michael Hatch, and State Auditor, Judith Dutcher. Howard Bicker serves as SBI's Executive Director.

The Legislature has established a 17-member Investment Advisory Council (IAC) to advise SBI and its staff on investment-related matters.

- SBI appoints ten members experienced in finance and investment. These members traditionally have come from the Minneapolis and Saint Paul corporate investment community.
- The Commissioner of Finance and the executive directors of TRA, the Minnesota State Retirement System and the Public Employees Retirement Association are permanent members of the Council.
- Two active employee representatives and one retiree representative are appointed to the Council by the Governor.

Investment Advisory Council (as of December 1999)

Gary Austin

Executive Director

Teachers Retirement Association

David Bergstrom

Executive Director

MN State Retirement System

John E. Bohan, Retired

Vice Pres., Pension Investments Grand Metropolitan-Pillsbury

Douglas Gorence

Chief Investment Officer U of M Foundation Investment Advisors

Kenneth F. Gudorf

Chief Executive Officer Agio Capital Management, LLC

P. Jay Kiedrowski

Executive Vice President Norwest Bank/Wells Fargo & Co.

Han Chin Liu

Governor's Appointee Active Employee Representative

Judith W. Mares

Financial Consultant

Mares Financial Consulting, Inc.

Malcolm W. McDonald**

Director and Senior Vice President Space Center, Inc.

Gary R. Norstrem, Retired

Treasurer

City of Saint Paul

Daralyn Peifer

Managing Director **Private Investments** General Mills, Inc.

Mary Stanton

Governor's Appointee Active Employee Representative

Michael Troutman

Vice President

Finance and Investments Evangelical Lutheran Church

in America

Mary Most Vanek

Executive Director

Public Employees Retirement Assn

Elaine Voss

Governor's Appointee Retiree Representative

Pamela Wheelock

Commissioner

MN Department of Finance

Jan Yeomans*

Treasurer 3M Co.

*Chair

**Vice-Chair

Richards & Tierney, Inc. of Chicago are general consultants to SBI. Pension Consulting Alliance of Studio City, California serves as a special project consultant. All investments made by SBI are governed by the prudent person rule and other standards codified in Minnesota Statutes, Chapters 11A and 356A.

The Council has formed four committees organized around broad investment subjects relevant to SBI's decision-making: Asset Allocation, Domestic Managers, International Managers and Alternative Investments.

All proposed investment policies are reviewed by the appropriate Committee and the full Council before they are presented to SBI for action.

Basic Retirement Funds

Investment Objectives

The pension contributions of active TRA members are invested through the Basic Retirement Funds (Basic Funds) administered by SBI. SBI has one overriding responsibility with respect to its management of the Basic Funds: to ensure that sufficient funds are available to finance promised benefits at the time of retirement.

The Basic Funds invest the pension contributions of most Minnesota public employees, including TRA members, during their working years. Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, the Basic Funds must generate investment returns of at least 8.5 percent on an annualized basis over time.

Normally, pension assets will accumulate in the Basic Funds for thirty to forty years during an employee's years of active service. This provides the Basic Funds with a long investment time horizon and permits SBI to take advantage of long run return opportunities offered by common stocks and other equity investments in order to meet its actuarial return target.

SBI measures the performance of the Basic Funds relative to a composite of market indices that is weighted in a manner that reflects their long-term asset allocation policy. The Basic Funds are expected to exceed the composite index over a five-year period. Performance is measured net of all fees and costs to assure that SBI's focus is on its true net return.

Asset Allocation

The allocation of assets among stocks, bonds, and alternative investments can have a dramatic impact on investment results. In fact, asset allocation decisions overwhelm the impact of individual security selection within a total portfolio. Consequently, SBI has focused considerable attention on the selection of an appropriate long-term asset allocation policy for the Basic Funds. The following table shows the actual asset mix of the Basic Funds at the end of fiscal year 1999.

Basic Funds Asset Mix (June 30, 1999)		
	Actual Mix	Policy Mix
Domestic Stocks	54.5%	45.0%
International Stocks	14.7%	15.0%
Bonds	20.8%	24.0%
Alternative Assets	9.0%	15.0%
Unallocated Cash	1.0%	1.0%
Total	100.0%	100.0%

Total Return Vehicles

SBI invests the majority of the Basic Funds' assets in common stocks (both domestic and international). A large allocation is consistent with the investment time horizon of the Basic Funds and the advantageous longterm risk-return characteristics of common stocks. Including international stocks in the asset mix allows SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio. The rationale underlying the inclusion of private equity (e.g. venture capital) is similar. However, the relatively small size of the private equity market presents a practical limit to the amount that may be invested in this asset class.

SBI recognizes that this sizable policy allocation to common stock and private equity likely will produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters or

even years of disappointing results. Nevertheless, the long run return benefits of this policy are expected to compensate for the additional volatility.

Diversification Vehicles

Other asset classes are included in the Basic Funds both to provide some insulation against highly inflationary or deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

Real estate and resource (oil and gas) investments provide an inflation hedge that other financial assets cannot offer. In periods of rapidly rising prices, these "hard" assets have appreciated in value at a rate at least equal to the inflation rate. Further, even under more normal financial conditions, such as low to moderate inflation, the returns on these assets are not highly correlated with common stocks. As a result, their inclusion in the Basic Funds serves to dampen return volatility.

The allocation to bonds acts as a hedge against a deflationary economic environment. In the event of a major deflation, high quality fixed income assets, particularly long-term bonds, are expected to protect

principal and generate significant capital gains. And, like real estate and resource funds, under normal financial conditions, bonds help to diversify the Basic Funds and thereby control return volatility.

Fiscal Year 1999 Changes

SBI did not make changes to its long-term asset allocation targets for the Basic Funds during fiscal year 1999. The actual asset mix of the Basic Funds for fiscal year 1999 was in-line with its long-term targets. It should be noted that the unfunded allocation to alternative investments in the Basic Funds is held in domestic stocks until it is needed for investment. As a result, the actual amount invested in domestic stocks was above its long-term target.

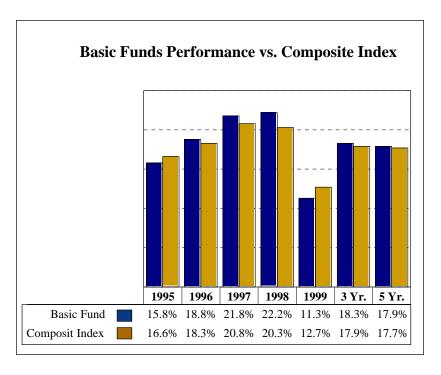
Rate of Return Results

The Basic Funds produced a total rate of return for fiscal year 1999 of 11.3 percent. Over the last five years, the Basic Funds have generated an annualized return of 17.9 percent. The current market value of the total Basic Funds is about \$20.2 billion. TRA's share of the fund is approximately 40 percent or \$8.0 billion.

As stated earlier, the Basic Funds are expected to exceed the return of a composite of market indices over a five-year period. Performance relative to this standard will measure two effects:

- 1 The ability of the managers selected by SBI, in aggregate, to add value to the returns available from the broad capital markets.
- The impact of SBI's rebalancing activity. (SBI rebalances the total fund when market movements take the stock or bond segments above or below their long-term asset allocation targets. The policy imposes a low risk discipline of buy low-sell high on a total fund basis.)

For the five-year period ending June 30, 1999, the Basic Funds out performed the composite index by 0.2 percentage points annualized. The primary



contributors of the value added came from above index performance by the international stock and bond portions of the portfolio, while the domestic stock segment underperformed index performance during the period. Actual returns relative to the total fund composite index over the last five years are shown in the graph on page 34.

Post Retirement Fund

When a member retires, TRA transfers assets on behalf of the member to the Minnesota Post Retirement Investment Fund (Post Fund). The Post Fund includes the assets of retired public employees covered by nine statewide retirement plans: the eight plans which participate in the Basic Funds as well as the Legislative and Survivors Retirement Fund.

The assets of the Post Fund finance monthly annuity payments paid to retirees. On June 30, 1999, the Post Fund had a market value of \$19.1 billion. TRA retirees' portion of this value is approximately \$8.6 billion or 45 percent. The Post Fund generated an investment return of 12.1 percent for fiscal year 1999.

Investment Objectives

The investment time horizon of the Post Fund is 15-20 years and corresponds to the length of time a typical retiree can be expected to draw benefits. While this is shorter than the time horizon of the Basic Funds, it is still sufficiently long to allow SBI to take advantage of the long run return opportunities offered by common stock in order to meet its actuarial return target as well as to finance retirement benefit increases.

SBI measures the performance of the Post Fund relative to a composite of market indices that is weighted in a manner that reflects its long-term asset allocation policy. The Post Fund is expected to exceed the composite index over a five year period. Performance is measured net of all fees and costs to assure that SBI's focus is on true net return.

Asset Allocation

SBI revised its asset allocation strategy for the Post Fund in fiscal year 1993 in order to reflect the goals associated with the new post retirement benefit increase formula (described later). Throughout fiscal year 1993, the actual asset mix of the Post Fund moved gradually toward a 50 percent allocation to common stocks. During fiscal year 1994, SBI added allocations to international stocks and alternative investments. The current long-term asset allocation policy and actual asset mix of the Post Fund at the end of fiscal year 1999 is presented in the following table.

(June 30, 1999)					
	Actual Mix	Policy Mix			
Domestic Stocks	54.1%	50.0%			
Int'l. Stocks	14.9	15.0			
Bonds	27.3	27.0			
Alternative Assets	1.3	5.0			
Unallocated Cash	2.4	3.0			
Total	100.0%	100.0%			

The majority of the Post Fund's assets are invested in common stocks (both domestic and international). A large allocation is consistent with the moderately long time horizon of the Post Fund and the advantageous long term risk-return characteristics of common stocks. Including international stocks in the asset mix allows SBI to diversify its holdings across world markets and offers the opportunity to enhance returns and reduce the risk/volatility of the total portfolio.

SBI recognizes that this sizable allocation will be likely to produce more volatile portfolio returns than a more conservative policy focused on fixed income securities. It is understood that this policy may result in quarters or even years of disappointing results. Nevertheless, the long run return benefits of this policy are expected to compensate for the additional volatility.

Other asset classes are included in the Post Fund both to provide some insulation against highly deflationary environments and to diversify the portfolio sufficiently to avoid excessive return volatility.

The bonds in the Post Fund act as a hedge against a deflationary economic environment. In the event of a

major deflation, high quality fixed income assets, particularly long term bonds, are expected to protect principal and generate significant gains. And, under more normal financial conditions, bonds diversify the Post Fund, thereby controlling return volatility on a year-to-year basis.

Yield oriented alternative investments are designed to provide the opportunity for higher long-term returns than those typically available from bonds yet still generate sufficient current income to be compatible with the objectives of the Post Fund. Typically, these investments (e.g. business loan participations and income producing private placements) are structured more like fixed income securities with the opportunity to participate in the appreciation of the underlying assets. While these investments may have an equity component, they display a return pattern more like a bond. As such they will help reduce the volatility of the total portfolio, but should also provide the opportunity to generate higher returns relative to more traditional bond investments.

Investment Management and Performance

In order to gain greater operating efficiency, the Post

Fund shares the same domestic stock, bond and international stock managers. The Post Fund is expected to exceed the return of a composite of market indices over a five-year period. The Post Fund's performance exceeded its composite market index by 0.5 percentage points for the five-year period since July 1, 1994.

Actual returns relative to the total fund composite index over the last five years are shown in the graph below.

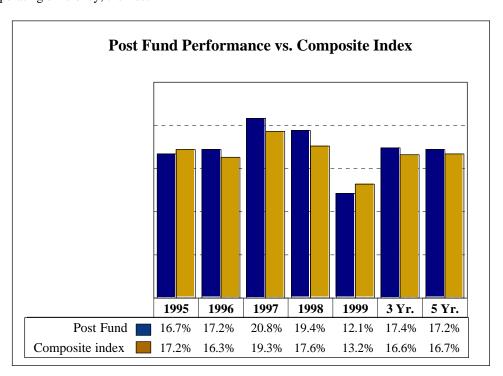
Benefit Increase Formula

The retirement benefit increase formula of the Post Fund was changed by the 1992 Legislature. The revised formula was effective beginning in fiscal year 1993 and is based on a combination of two components:

• Inflation Component. Each year, retirees receive an inflation-based adjustment equal to 100 percent of inflation, up to a maximum specified in statute. The inflation component is granted regardless of investment performance. The cap is necessary to maintain the actuarial soundness of the entire plan. It is the difference between the return assumption for the Basic Funds and the return assumption for the Post Fund.

The return assumption in the Basic Funds is 8.5 percent. The return assumption for the Post Fund is 6.0 percent. This means the cap on the inflation adjustment is 2.5 percent for fiscal year 1999.

• Investment Component. Each year, retirees also receive an investment-based adjustment, provided net investment gains are above the amount needed to finance the Post Fund's



actuarial assumption and the inflation adjustment. Investment gains and losses will be spread over five years to smooth out the volatility of returns. In addition, all accumulated investment losses must be recovered before an investment-based adjustment is granted.

The current formula has two primary advantages:

- It provides benefit increases that are more sensitive to inflation than those granted under the old formula.
- It allows the Post Fund to maximize the long-term earning power of its assets. Without the need to generate the higher levels of current income required under the old formula, the Post Fund can increase its stock exposure and thereby enhance its prospects for higher total rates of return over the long run.

The Post Fund will provide a benefit increase of 11.1436 percent for fiscal year 1999 payable January 1, 2000. As noted earlier, this increase is comprised of two components:

• *Inflation component* of 1.9 percent which is equal to 100 percent of the reported Consumer Price

Index for wage earners (CPI-W) increase for the twelve months ending June 30, 1999. (This is the same inflation index used to calculate increases in Social Security payments.)

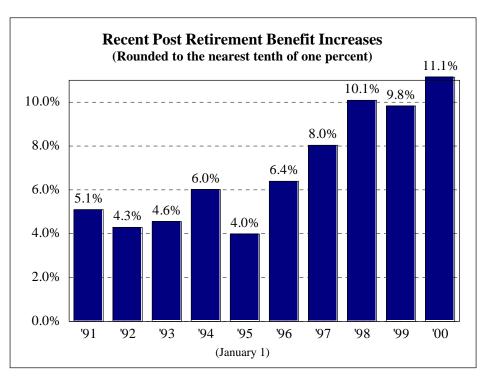
• Investment component of 9.2436 percent. This represents a portion of the market value increase that exceeds the amount needed to cover the actuarial assumed rate of return and the inflation adjustment.

Benefit increases granted for the past ten years are shown in the graph below.

Prior to fiscal year 1993, the benefit increase formula was dependent on the level of excess realized income generated by the Post Fund. The 11.1436 percent increase granted for fiscal year 1999 represents the seventh post retirement adjustment provided under the new benefit increase formula described above.

The Basic Funds and the Post Fund share many of the same stock and bond managers. This is accomplished by grouping managers together, by asset class, into several investment pools. The individual funds participate in the investment pools by purchasing units which function much like shares of a mutual fund.

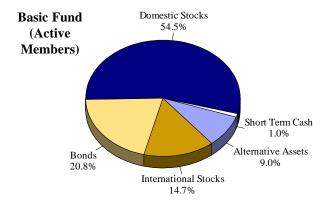
This investment management structure allows SBI to gain greater operating efficiency within asset classes and to keep money management costs as low as possible for all participants. Further information on investment activity and a listing of specific investments owned by the pooled accounts can be obtained from the Minnesota State Board of Investment, Suite 200, 590 Park Street, Saint Paul, MN 55103.

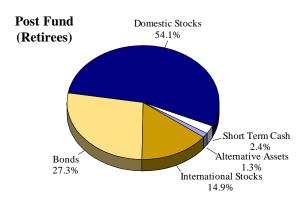


Teachers Retirement Fund

Portfolio Distribution

June 30, 1999





Teachers Retirement Fund

Performance of Asset Pools (Net of Fees)

June 30, 1999

	Rates of Return (Annualized)		
	FY 1999	3-Year	5-Year
Domestic Stock Pool	18.1%	26.0%	25.4%
Wilshire 5000	19.6	25.8	25.7
Bond Pool	2.7%	7.6%	8.1%
Lehman Agg.	3.1%	7.2	7.8
International Stock Pool	9.3%	9.3%	9.5%
Composite Index	10.6%	7.4	7.4
RealEstate Pool (Basic Funds Only)	6.7%	17.5%	12.3%
Private Equity Pool (Basic Funds Only)	(0.1%)	24.1%	23.3%
Resource Pool (Basic Funds Only)	(29.2%)	7.5%	9.8%
Yield Oriented Pool (Post Fund Only)	15.5%	11.7%	11.8%

Teachers Retirement Fund

List of Largest Assets Held

June 30, 1999

Composite Holdings of Top Ten Equities (by Market Value)

Company Po	<u>ortfolio</u>
Microsoft Corp.	1.72%
General Electric Co.	1.39
Cisco Systems Inc.	1.07
Intel Corp.	1.01
Wal Mart Stores Inc.	0.88
Merck & Co. Inc.	0.86
Citigroup Inc.	0.80
International Business Machine	0.79
Lucent Technologies Inc.	0.77
Exxon Corp.	0.76

Composite Holdings of Top Ten Bond Holdings (by Market Value)

		Maturity		% of
Company	Coupon	Date	Rating	<u>Portfolio</u>
FNMA (30 Year)	6.00%	07/01/2029	AAA	0.83%
FNMA	7.00	07/01/2029	AAA	0.44
FNMA	6.50	07/01/2029	AAA	0.42
FHLMC	6.00	07/01/2029	AAA	0.28
FHLMC	7.50	07/01/2029	AAA	0.27
United States Treasury Notes	3.38	01/15/2007	AAA	0.25
United States Treasury Notes	6.50	05/31/2001	AAA	0.23
FHLMC	6.50	07/01/2029	AAA	0.23
United States Treasury Bonds	8.50	02/15/2020	AAA	0.23
United States Treasury Bonds	3.63	04/15/2028	AAA	0.20

TRA's assets are commingled in various pooled investment accounts administered by the State Board of Investment (SBI). TRA does not own specific values of the underlying assets. The percentages shown are those of the total pooled accounts. Information on investment activity, a listing of specific investments owned by the pooled accounts and a schedule of fees and commissions can be obtained from SBI.

Summary of Investments*

As of June 30, 1999

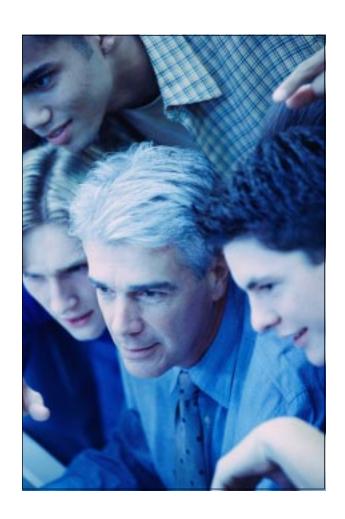
	Bo	ook	Market		
Book	Value	Total Book Value	Market Value	Total Market Value	
Fixed Income Investments	571 011		ф 1 co2 ooo co2		
Fixed Income Pool	5/1,311		\$ 1,683,900,692		
Total Fixed Income Investments		<u>\$1,740,571,311</u>		\$ 1,683,900,692	
Equity Investments					
External Indexed Equity Pool\$ 870,9	970,792		\$ 1,454,379,194		
Global Equity Pool	886,984		1,192,530,779		
External Domestic Equity Pool 2,557,9	963,306		3,015,586,999		
Total Equity Investments		\$4,485,821,082		\$5,662,496,972	
Alternative Investments					
Internal Venture Capital Pool \$ 415,5	550,590		\$ 400,748,613		
Internal Real Estate Fund Pool 242,2	204,589		303,322,179		
Internal Resource Fund Pool	365,858		62,172,585		
Total Alternative Investments		\$ 741,121,037		\$ 766,243,377	
Short Term Investment					
Short Term Cash Equivalents \$ 79,5	523,229		\$ 79,523,229		
Total Short Term Investments		\$ 79,523,229		\$ 79,523,229	
Total Investments		\$7,047,036,659		\$8,192,164,270	

General Information Regarding Investment of Funds

TRA's investments are made by SBI and external managers as prescribed by law, and are made only in such securities as are duly authorized legal investments in accordance with Minnesota Statutes, section 11A.24. State Street Bank and Trust of Boston acts as custodian of securities for the Basic Funds and the Post Fund. First Trust National Association, St. Paul, Minnesota is the current custodian of short term investments of TRA. Examination and verification of securities held by the custodians is performed periodically by the Minnesota Office of the Legislative Auditor.

^{*}TRA's share of the Basic Funds does not include investments in the Post Fund.

Actuarial Section





Internationally WOODROW MILLIMAN

Suite 400, 15800 Bluemound Road, Brookfield, Wisconsin 53005-6069 Telephone: 414/784-2250 Fax: 414/784-7287

December 1, 1999

Board of Trustees Teachers Retirement Association Fund Suite 500 17 West Exchange St. Paul, MN 55102

Members of the Board:

We have completed our annual actuarial valuation of the Teachers Retirement Association Fund (TRA) to test how well the fundamental financing objectives are being achieved and to determine the actuarial status of the TRA as of July 1, 1999.

The fundamental financing objectives of the fund are to establish contribution rates which, when expressed as a percentage of active member payroll, will remain approximately level from generation to generation and meet the required deadlines for full funding.

The results of the valuation indicate that the TRA is already at the level of full funding. On an ongoing basis, the sufficiency is 0.14% of payroll, which is the result of the statutory contributions of Chapter 354 of 10.00% exceeding required contributions of Chapter 356 of 9.86%.

The actuarial valuation was based upon applicable statutory provisions and the Standards of Actuarial Work in effect on July 1, 1999. In the aggregate, the basic financial membership data provided to us by the Association office appears reasonable in comparison to last year. We have relied upon the data as submitted in performing the actuarial valuation. It is our understanding that the data has subsequently been audited with no significant changes made.

The valuation was performed by using the actuarial cost methods and actuarial assumptions that are described in a separate table of this report. The actuarial cost method and the assumptions related to asset valuation, investment return, earnings progression and active member payroll growth are specified by state statute. All other assumptions are based on actual experience with changes recommended by the actuary, adopted by TRA Board, and

Albany, Atlanta, Boston, Chicago, Dallas, Denver, Hartford, Houston, Indianapolis, Irvine, Los Angeles, Milwaukee, Minneapolis, New York, Omaha, Philadelphia, Phoenix, Portland, ME, Portland, OR, St. Louis, Salt Lake City, San Diego, San Francisco, Seattle, Tampa, Washington, D.C., Bermuda, Tokyo WOODROW MILLIMAN Member Firms in Principal Cities Worldwide

Actuary's Letter

Board of Trustees December 1, 1999 Page Two

approved by the Legislative Commission on Pensions and Retirement. All assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section of the TRA comprehensive annual financial report, set by GASB Statement No. 25, with one exception: Current Statutes under Chapter 354 do not recognize any amortization credit for existing surplus. Using the maximum amortization period acceptable under Statement 25, the actuarial required contribution would be 8.28% once surplus recognition is incorporated.

The trend data schedules presented in the financial section, and the supporting schedules in the actuarial section of the Comprehensive Annual Financial Report were prepared by the staff of the TRA based on information contained in our actuarial valuation report.

We certify that to the best of our knowledge and belief, this actuarial valuation was performed in accordance with the requirements of Section 356.215, Minnesota Statutes, and the requirements of the Standards for Actuarial Work.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.

Thomas K. Custis, F.S.A. Consulting Actuary

TKC/bh

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MILLIMAN & ROBERTSON, INC.

Summary of Actuarial Assumptions and Methods

1.	Interest	rest Pre-Retirement 8.5% per annum		Salary
		Post-Retirement 8.5% per annum	Age	Increases
2	Colony Ingresses	Papartad calary for prior figual year, with navy hiras	20	7.25
2.	Salary Increases	Reported salary for prior fiscal year, with new hires annualized, increased according to the table on the	25	7.10
	right to current fiscal year and annually for each	30	7.00	
		future year.		7.00
3.	Mortality	Pre-Retirement	40	6.70
		Male - 1983 Group Annuity Mortality Table for males set back eight years.	45	6.05
	Female - 1983 Group Annuity Mortality Table		50	5.60
		for females set back four years.	55	5.35
		Post-Retirement Male - Same as above except set back four years.	60	5.25
		Female - Same as above except set back two years.		

Post-Disability

Male - 1977 Railroad Retirement Board Mortality for Disabled Annuitants. Female - 1977 Railroad Retirement Board Mortality for Disabled Annuitants.

4. Retirement Age

Age 62, or if over age 62, one year from valuation date. In addition, 45% of Basic Members and 30% of Coordinated Members are assumed to retire each year that they are eligible for the Rule of 90.

5. Separation From Service

Select and ultimate rates were based on plan experience as of June 30, 1989. Ultimate rates after the third year are illustrated in the Annual Separation table of sample values below. Select rates for the first three years are as follows:

	First Year	Second Year	Third Year
Less than 35	.3	.15	.1
35-44	.25	.125	.08
45-60	.3	.15	.1

Annual Separation Rate Per 10,000 Employees (Sample Values) **Pre-Retirement Death** Withdrawal **Disability** Male **Female** Male **Female Female** Male Age 3 1 600 4 20 600 4 4 30 3 565 565 6 6 40 5 210 210 8 8 70 50 15 11 70 17 17 0 0 60 48 28 63 63

6. Disability Graduated rates illustrated in table of sample values on previous

page.

7. Expenses Prior year expenses expressed as percentage of prior year payroll.

8. Return of Contributions All employees withdrawing after becoming eligible for a deferred

> benefit were assumed to take the larger of their contributions accumulated with interest or the value of their deferred benefit.

9. Family Composition 85% of male members and 65% of female members are assumed to

be married. Female is three years younger than male. Assume

members have no children.

N/A 10. Social Security

11. Benefit Increases After Retirement Payment of earnings on retired reserves in excess of 6% accounted

for by 6% post-retirement assumptions.

12. Special Consideration Married members assumed to elect subsidized joint and survivor

form of annuity as follows:

-- 15% elect 50% J&S option Males

50% elect 100% J&S option

Females -- 10% elect 50% J&S option

10% elect 100% J&S option

13. Actuarial Cost Method Entry Age Normal Actuarial Cost Method with normal costs

expressed as a level percentage of earnings. Under this method, actuarial gains (losses) reduce (increase) the Unfunded Actuarial

Accrued Liability.

14. Asset Valuation Method Cost value plus one-third unrealized gains or losses.

15. Payment on the Unfunded A level percentage of payroll each year to the statutory

Actuarial Accrued Liability amortization date assuming payroll increases of 5% per annum.

(Currently Not Applicable)

Valuation Report Highlights

A. Contributions	June 30 1998	June 30 1999
1. Statutory Contributions – Chapter 354 (% of Payroll)	10.00%	10.00%
2. Required Contributions - Chapter 356 (% of Payroll)	9.82%	9.86%
3. Sufficiency (Deficiency) (A.1-A.2)	0.18%	0.14%
B. Funding Ratios		
1. Accrued Benefit Funding Ratio		
a. Current Assets (Table 1)	\$12,727,546	\$14,011,247
b. Current Benefit Obligations (Table 2)	\$11,332,467	\$12,533,786
c. Funding Ratio (a/b)	112.31%	111.79%
2. Accrued Liability Funding Ratio		
a. Current Assets (Table 1)	\$12,727,546	\$14,011,247
b. Actuarial Accrued Liability (Table 3)	\$12,046,312	\$13,259,569
c. Funding Ratio (a/b)	105.66%	105.67%
3. Projected Benefit Funding Ratio (Table 2)		
a. Current and Expected Future Assets	\$15,134,315	\$16,526,750
b. Current and Expected Future Benefit Obligations	\$14,382,569	\$15,719,403
c. Funding Ratio (a/b)	105.23%	105.14%
C. Plan Participants		
1. Active Members		
a. Number	68,247	68,613
b. Projected Annual Earnings	\$ 2,569,368	\$ 2,692,960
c. Average Annual Earnings (Actual \$)	\$ 37,648	\$ 39,249
d. Average Age	43.1	42.9
c. Average Service	12.5	12.1
2. Others		
a. Service Retirements	25,088	27,457
b. Disability Retirements	1,686	1,816
c. Survivors	454	476
d. Deferred Retirements	6,924	7,020
e. Terminated Other Non-vested	16,827	18,317
f. Total	50,979	55,086

Actuary's Commentary

Purpose

The purpose of this valuation is to determine the financial status of the Plan. In order to achieve this purpose, an actuarial valuation is made at the beginning of each fiscal year as required by Minnesota Statutes, section 356.215.

Report Highlights

The financial status of the Plan can be measured by three different funding ratios:

- The Accrued Benefit Funding Ratio is a measure of current funding status, and when viewed over a period of years, presents a view of the funding progress. It is based upon benefits which have been earned by service to the valuation date. This year's ratio is 111.79 percent. The corresponding ratio for the prior year was 112.31 percent.
- The Accrued Liability Funding Ratio is also a measure of funding status and funding progress. It is based on the actuarial cost method that has historically been used by the State. For 1999 the ratio is 105.67 percent, which is an increase from the 1998 value of 105.66 percent.
- The Projected Benefit Funding Ratio is a measure of the adequacy or deficiency in the contribution level. This year's ratio of 105.14 percent shows that the current statutory contributions are sufficient.

Asset Information (Table 1)

Minnesota Statutes require that the asset value used for actuarial purposes recognize only a third of the unrealized gains and losses. This requirement exists because market values (which include all unrealized gains and losses) are typically volatile and can produce erratic changes in the contribution requirements from year to year.

The calculation of the Actuarial Value of Assets is shown in Table 1 on lines F1 to F6. It combines the cost value of the Assets Available for Benefits and one-third of the difference between the market value and cost value of those assets.

The term Actuarial Value of Assets is used to indicate that the value was determined for use in this actuarial valuation. Since Minnesota Statutes refer to this value as Current Assets, the latter phrase will be used in the remainder of this report.

This Plan participates in the Minnesota Post Retirement Investment Fund (Post Fund). After the Post Fund liability has been calculated for each participating Plan, the State Board of Investment (SBI) will determine each Plan's portion of the excess earnings for the January benefit increase, as well as the Plan's allocated market share of the Post Fund.

Actuarial Balance Sheet (Table 2)

An actuarial balance sheet provides a method for evaluating current and future levels of funding.

The Current Benefit Obligation used to measure current funding levels is calculated as follows:

- For Active Members salary and service are projected to retirement to determine benefits for each member and the ratio of credited service to total service establishes the portion of the projected benefit to be used in calculating the current funding level.
- For Non-Active Members the discounted value of benefits, including augmentation in cases where benefits have not commenced.

Actuarial Cost Method (Table 3)

The approach used by the State of Minnesota to determine contribution sufficiency is the Entry Age Normal Actuarial Cost Method. The primary characteristic of this method is that it allocates costs as a level percentage of payroll.

A comparison of this actuarial method (Table 3) to the actuarial balance sheet (Table 2) illustrates the two techniques for allocating liabilities of active members to past and future. As noted in the prior section, the balance sheet allocates benefits and the corresponding liabilities, on the basis of service. The method used in Table 3 allocates liabilities so that the cost each year

will be a constant percentage of payroll. Both approaches, however, calculate the value of all future benefits the same way (see line F of Table 2 and line A6, column 1 of Table 3).

An Unfunded Actuarial Accrued Liability is computed under the Entry Age Normal Actuarial Cost Method by comparing the liabilities allocated to past service (Actuarial Accrued Liability) to the Current Assets. This amount, line B3, is funded over the remaining years to the amortization date of July 1, 2020, by a series of payments that remain a constant percentage of payroll each year. As of July 1, 1999, no unfunded liability exists.

Sources of Actuarial Gains and Losses (Table 4)

The assumptions used in making the calculations using the Entry Age Normal Actuarial Cost Method are based on long-term expectations. Each year the actual experience will deviate from the long-term expectation. For a detailed analysis of the major components, refer to Table 4.

Contribution Sufficiency (Table 5)

This report determines the adequacy of Statutory Contributions by comparing the Statutory Contributions of the Required Contributions.

The Required Contributions, set forth in Chapter 356, consist of:

- Normal Costs based on the Entry Age Normal Actuarial Cost Method.
- A Supplemental Contribution for amortizing any Unfunded Actuarial Accrued Liability.
- An Allowance for Expenses.

Table 5 shows the Plan has a contribution sufficiency of 0.14 percent since the Statutory Contribution Rate is 10 percent compared to the Required Contribution Rate of 9.86 percent.

Changes in Actuarial Assumptions

There were no changes in actuarial assumptions for the current valuation.

Changes in Plan Provisions

There were no changes in the plan provisions which affected plan costs for the current valuation.

Statement of Plan Net Assets

Table 1

July 1, 1999

			Mar	ket Value	(Cost Value
A.	As	sets in Trust			_	
	1.	Cash, Equivalents, Short-term Securities	\$	80,603	\$	80,603
	2.	Fixed Income		1,683,901		1,740,571
	3.	Equity		6,125,418		4,984,738
	4.	Real Estate		303,322		242,205
	5.	Equity in the Post Fund		6,751,682		6,751,682
	6.	Invested Securities Lending Collateral		1,628,457		1,628,457
	7.	Other		1,293		1,293
		Subtotal	\$ 1	6,574,676	\$	15,429,549
В.	As	sets Receivable		23,155		23,155
C.	Lia	abilities				
	1.	Invested Security Lending	((1,628,457)		(1,628,457)
	2.	Other	_	(194,709)	_	(194,709)
	3.	Total Liabilities	(\$	1,823,166)	(9	\$1,823,166)
D.	Ne	t Assets Held in Trust for Pension Benefits				
	1.	Post Fund Reserves		6,751,682		6,751,682
	2.	Member Reserves		1,321,579		1,321,579
	3.	Other Non-Post Fund Reserves	_	6,701,404	_	5,556,277
	4.	Total Assets Available for Benefits	\$ <u>_1</u>	4,774,665	\$	13,629,538
<u> </u>	De	termination of Actuarial Value of Assets				
	1.	Cost Value of Assets Available for Benefits (D4)			\$ 1	13,629,538
	2.	Market Value (D4)	\$ 1	4,774,665		
	3.	Cost Value (D4)	1	3,629,538		
	4.	Market Over Cost (E2 – E3)		1,145,127		
	5.	One-third of Market Over Cost (E4) ÷ 3				381,709
	6.	Actuarial Value of Assets (E1 + E5)			\$.	14,011,247
		(Same as Current Assets)			=	

Actuarial Balance Sheet

Table 2

July 1, 1999

A.	Current Assets (Table 1, E6)	14,011,247
В.	Expected Future Assets	
	1. Present Value of Expected Future	
	Statutory Supplemental Contributions (See Table 5)	55,669
	2. Present Value of Future Normal Costs	2,459,834
	3. Total Expected Future Assets	2,515,503
C.	Total Current and Expected Future Assets	16,526,750
D.	Current Benefit Obligations Non-Vested Vested	Total_
	1. Benefit Recipients	
	a. Retirement Annuities	\$ 6,503,453
	b. Disability Benefits	101,817
	c. Surviving Spouse and Child Benefits	268,740
	2. Deferred Retirements with Future Augmentation 326,385	326,385
	3. Former Members without Vested Rights	56,797
	4. Active Members	
	a. Retirement Annuities	4,850,674
	b. Disability Benefits	184,317
	c. Survivor Benefits	61,135
	d. Deferred Retirements	82,420
	e. Refund Liability Due to Death or Withdrawal098,048	98,048
	5. Total Current Benefit Obligations	\$12,533,786
Е.	Expected Future Benefit Obligations	\$_3,185,617
F.	Total Current and Expected Future Benefit Obligations	\$ 15,719,403
G.	Current Unfunded Actuarial Liability (D5 – A)	(\$ 1,477,461)
H.	Current and Future Unfunded Actuarial Liability (F - C)	(\$ 807,347)

Determination of Unfunded Actuarial Accrued Table 3 **Liability (UAAL) and Supplemental Contribution Rate** July 1, 1999

			Actuarial Present Value of Projected Benefits	Actuarial Present Value of Future Normal Costs	Actuarial Accrued Liability
			(1)	(2)	(3) = (1) - (2)
A.	De	termination of Actuarial Accrued Liabili	ty (AAL)		
	1.	Active Members			
		a. Retirement Annuities	\$ 7,748,766	\$1,973,102	\$ 5,775,664
		b. Disability Benefits	310,144	127,318	182,826
		c. Survivor Benefits	97,719	37,324	60,395
		d. Deferred Retirements	155,910	80,504	75,406
		e. Refunds Due to Death or Withdrawal	149,672	241,586	(91,914)
		f. Total	\$ 8,462,211	\$2,459,834	\$ 6,002,377
	 3. 4. 6. 	Deferred Retirements with Future Augmentation Former Members without Vested Rights . Annuitants in the Post Fund Recipients Not in the Post Fund Total	326,385 56,797 6,751,682 122,328 \$15,719,403	\$2,459,834	326,385 56,797 6,751,682 122,328 \$13,259,569
В.	De	termination of Unfunded Actuarial Accru	ued Liability (UA	AL)	
	1.	AAL (A6)			\$13,259,569
	2.	Current Assets (Table 1, E6)			14,011,247
	3.	UAAL (B1 – B2)			(\$ 751,678)
C.	De	termination of Supplemental Contributio	n Rate		
	1.	Present Value of Future Payrolls through the amortization date of July 1, 2020			\$39,763,417
	2.	Supplemental Contribution Rate (B3 ÷ C1))		0.00%

Changes in Unfunded Actuarial Accrued Liability (UAAL) Year Ending June 30, 1999

Table 4

A.	UAAL at Beginning of Year	(\$	681,234)
B.	Change Due to Interest Requirements and Current Rate of Funding		
	1. Normal Cost and Expenses	\$	252,167
	2. Contribution		(262,566)
	3. Interest on A, B1 and B2	(\$	58,347)
	4. Total (B1 + B2 + B3)	(\$	68,746)
C.	Expected UAAL at End of Year (A + B4)	(\$	749,980)
D.	Increase (Decrease) Due to Actuarial Losses (Gains)		
	Because of Experience Deviations from Expected		
	1. Salary Increases	\$	8,630
	2. Investment Return		(232,479)
	3. Post Fund Mortality		16,319
	4. Mortality of Other Benefit Recipients		(1,652)
	5. Other Items		207,484
	6. Total	(\$	1,698)
E.	UAAL at End of Year Before Plan Amendments and		
	Changes in Actuarial Assumption (C + D6)	(\$	751,678)
F.	Change in Actuarial Accrued Liability Due to Plan Amendments		0
G.	Change in Actuarial Accrued Liability Due to Changes in Actuarial Assumptions		0
н.	UAAL at End of Year (E + F + G)	(\$_	751,678)

Determination of Contribution Sufficiency July 1, 1999

Table 5

(Dollars in Thousands)

A. Statutory Contributions - Chapter 354	Percent of Payroll	Dollar Amount
 Employee Contributions Employer Contributions Total B. Required Contributions - Chapter 356	5.00%	\$134,698 134,698 \$269,396
Normal Cost a. Retirement Benefits b. Disability Benefits c. Survivor Benefits d. Deferred Retirement Benefits e. Refunds Due to Death or Withdrawal f. Total		\$208,662 12,763 3,894 6,370 25,697 \$257,386
 Supplemental Contribution Amortization by July 1, 2020 Allowance for Expenses 	0.31%	8,348
4. Total C. Contribution Sufficiency (Deficiency) [A3 – B4]		\$265,734

Note: Projected annual payroll for fiscal year beginning on July 1, 1999 is \$2,692,960.

Summary of Actuarial and Unfunded Actuarial Liabilities

Valuation as of June 30	Aggregate Actuarial Liabilities	Valuation Assets	Assets as a % of Actuarial Liabilities	Unfunded Accrued Liabilities (UAL)	Annual Active Member Payroll	UAL as a % of Annual Active Member Payroll
1990	\$ 6,611,074	\$ 5,131,999	77.6%	\$1,479,075	\$1,785,459	82.8%
1991	7,213,720	5,614,924	77.8%	1,598,796	1,874,365	85.3%
1992	7,662,522	6,324,733	82.5%	1,337,789	1,934,014	69.2%
1993	8,266,059	7,045,937	85.2%	1,220,122	2,024,000	60.3%
1994	9,115,266	7,611,935	83.5%	1,503,331	2,104,578	71.4%
1995	9,717,623	8,348,124	85.9%	1,369,499	2,197,262	62.3%
1996	10,366,168	9,541,221	92.0%	824,947	2,252,383	36.6%
1997	10,963,637	11,103,759	101.3%	(140,122)	2,359,011	(5.9%)
1998	12,046,312	12,727,546	105.6%	(681,234)	2,422,958	(28.1%)
1999	13,259,569	14,011,247	105.7%	(751,678)	2,625,254	(28.6%)

Solvency Test

Aggregate Accrued Liabilities					Portion of Actuarial Accrued Liabilities Covered by Reported Assets			
Valuation as of June 30	(1) Member Contributions	(2) Retirees and Beneficiaries	(3) Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	
1990	\$ 787,514	\$2,093,209	\$3,730,351	\$ 5,131,999	100%	100%	60.4%	
1991	838,160	2,370,851	4,004,709	5,614,924	100%	100%	60.1%	
1992	886,618	2,662,744	4,113,160	6,324,733	100%	100%	67.5%	
1993	921,143	3,120,037	4,224,879	7,045,937	100%	100%	71.1%	
1994	970,813	3,559,614	4,584,839	7,611,935	100%	100%	67.2%	
1995	1,070,347	3,866,694	4,780,582	8,348,124	100%	100%	71.4%	
1996	1,164,651	4,319,329	4,882,188	9,541,221	100%	100%	83.1%	
1997	1,252,843	4,808,918	4,901,876	11,103,759	100%	100%	100.0%	
1998	1,303,006	5,570,230	5,173,076	12,727,546	100%	100%	100.0%	
1999	1,321,579	6,751,682	5,186,308	14,011,247	100%	100%	100.0%	

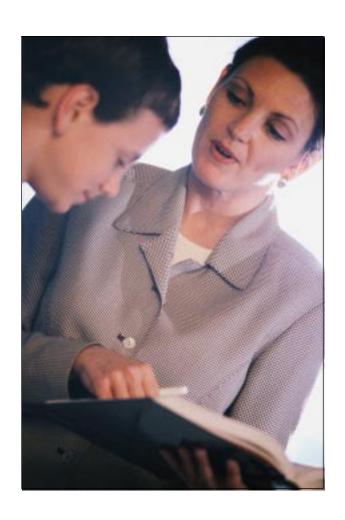
Schedule of Active Member Valuation Data

Year Ended June 30	Active Members	Annual Payroll	Annual Average	% Increase in Average Pay
1990	64,324	\$1,785,459,190	\$27,757	4.4%
1991	65,093	1,874,364,682	28,795	3.7%
1992	65,557	1,934,014,000	29,501	2.5%
1993	65,268	2,024,000,000	31,017	5.0%
1994	66,514	2,104,578,000	31,641	2.1%
1995	67,558	2,197,262,000	32,524	2.8%
1996	68,490	2,252,383,000	32,888	1.1%
1997	68,554	2,359,011,000	34,411	4.6%
1998	68,247	2,422,958,000	35,503	3.2%
1999	68,613	2,625,254,000	38,262	7.7%

Schedule of Retirees and Beneficiaries

					% Increase	
Year Ended June 30	Added During Year	Removed During Year	Number End of Year	Total Annual Benefits	in Total Annual Benefits	Average Annual Benefits
1990	1,262	511	17,136	\$179,792,053	11.8%	\$10,492
1991	1,499	541	18,094	200,415,271	11.5%	11,076
1992	1,630	512	19,212	227,066,655	16.7%	11,819
1993	2,166	568	20,810	256,630,249	13.0%	12,332
1994	1,886	559	22,137	309,036,770	20.2%	13,960
1995	1,632	601	23,168	338,857,152	9.6%	14,626
1996	1,806	667	24,307	378,072,148	11.6%	15,554
1997	2,063	689	25,681	427,588,141	13.1%	16,650
1998	2,246	699	27,228	533,851,113	24.9%	19,607
1999	3,234	713	29,749	620,937,964	16.3%	20,872

Statistical Section



Plan Summary

(June 30, 1999)

Purpose

The Minnesota Teachers Retirement Association (TRA) was established on July 1, 1931 by the state legislature. Its purpose is to improve educational service and better compensate teachers in order to make the occupation of teaching in Minnesota more attractive to qualified persons by providing a retirement benefit schedule that rewards faithful and continued service.

Administration

TRA is managed by eight trustees – three are statutorily appointed and five are elected. The statutory trustees are the Commissioner of Children, Families, and Learning, the Commissioner of Finance and a representative of the Minnesota School Boards Association. Four of the five elected trustees are active members and one is a retiree. Administrative management of the fund is vested in an Executive Director who is appointed by the Board of Trustees. The Board also contracts with an actuary and uses legal counsel provided by the office of the Attorney General.

Membership

All teachers employed in public elementary and secondary schools, joint powers, charter schools and all other educational institutions maintained by the State of Minnesota (except those teachers employed by the cities of Minneapolis, St. Paul and Duluth, or by the University of Minnesota) are required to be members of TRA. Teachers employed by Minnesota State Colleges and Universities (MnSCU) have a one-time election to join TRA. No Minnesota state college or university teacher is a member except for purposes of Social Security coverage if that teacher has coverage by the Defined Contribution Retirement Plan administered by the MnSCU Board.

Retirement Service Credit

Service credit for benefits is earned from teaching service performed on a full-time, part-time or substitute basis up to a maximum of 170 full days per fiscal year (July 1 – June 30). Service credit may be obtained by using paid accumulated sick leave or by purchasing service for a qualified leave of absence. If a teacher

teaches less than 170 full days, fractional service credit is given as the ratio of the number of full days taught to 170. If a teacher teaches only a fractional part of a day, service credit is given for a full day of teaching service for each five hours taught. Even though a teacher may teach more than five hours per day, not more than one day of service credit can be earned on any day. No more than one year of service credit may be earned during any fiscal year.

Financing

Benefits are financed by employee contributions, employer contributions, investment earnings and turnover gains. Turnover gains are employer contributions released to the fund when members take refunds of their own contributions.

Employee Contributions

TRA members pay a percentage of their gross annual salary as determined by their membership plan. Basic Plan members (without Social Security coverage) contribute 9 percent of their annual salary while Coordinated Plan members (coordinated with Social Security coverage) contribute 5 percent of their annual salary.

Employer Contributions

Local school districts and other TRA covered employer units provide contributions of 9 percent of total salary for members in the Basic Plan and 5 percent of total salary for members in the Coordinated Plan. For Coordinated Plan members the employer unit also makes the required matching contribution to the Social Security Administration.

Purchase of Prior Service Credit

Vested members may elect to purchase eligible credit for prior military service, maternity leaves or maternity breaks in service, out-of-state teaching service, Peace Corps or VISTA service, or private/parochial school service.

All or a portion of their eligible prior service may be purchased. The cost of the service is based on an actuarial methodology recognizing both an increased

future monthly benefit and the expectation that the member will retire earlier than had been previously assumed. The option to purchase service credit is set to expire on May 16, 2002.

Retirement Benefit

The retirement benefit is determined by a formula based on the average of the member's highest five successive annual salaries, an accumulated percentage factor based on the total years of service credit, and the member's age at retirement. The retirement benefits for members who were first hired before July 1, 1989, are different from the retirement benefits for members who were first hired after June 30, 1989.

Before July 1, 1989

For members first hired before July 1, 1989, the retirement benefits (with average salary defined as the average of the highest five successive annual salaries) are the greater of:

> 1.2 percent of average salary for the first 10 years of allowable service and 1.7 percent of average salary for each subsequent year of allowable service with a reduction of 0.25 percent for each month the member is under age 65 at the time of retirement (or under age 62 with 30 or more years of allowable service) and no reduction if age plus years of allowable service totals 90 or more.

1.7 percent of average salary for each year of allowable service with augmented actuarial reduction (approximately 4.0 percent – 5.5 percent per year) for each month the member is under age 65.

Early retirement benefit eligibility is age 55 with 3 or more years of allowable service or any age with at least 30 years of allowable service when using the smaller percentage factor.

For Basic system members (those without Social Security coverage) the formula percentages are 2.2 percent and 2.7 percent rather than the 1.2 percent and 1.7 percent shown for Coordinated system members (those with Social Security coverage).

After June 30, 1989

For members first hired after June 30, 1989 the retirement benefits (with average salary defined as the average of the highest five successive annual salaries) are as follows:

> 1.7 percent of average salary for each year of allowable service with augmented actuarial reduction (approximately 4.0 percent - 5.5 percent per year) for each month the member is under the full Social Security retirement benefit eligible age but not to exceed age 66. Under current federal law, the retirement age for full Social Security retirement benefits is age 65 for persons born in 1937 or earlier. For persons born in 1938 to 1942, Social Security gradually increases the retirement age for full Social Security benefits until it reaches age 66 for those persons born in 1943 to 1954. For those born in 1955 through 1959, the retirement age gradually increases up to age 67. For those born in 1960 and later, the retirement age is 67.

Early retirement benefit eligibility is age 55 with 3 or more years of allowable service.

Deferred Retirement

Members with three or more years of allowable service (ten or more years of allowable service if termination of teaching service occurs before July 1, 1987, and five or more years of allowable service if termination of teaching service occurs after June 30, 1987, but before May 16, 1989) who terminate teaching service in schools covered by the association may have their retirement benefit deferred until they attain age 55 or older.

Their benefit is augmented by 3 percent interest compounded annually until January 1 of the year following attainment of age 55 and 5 percent thereafter until the retirement benefit begins.

July 1, 1997 Increase

Effective July 1, 1997, all benefit recipients received an actuarially equivalent permanent increase based on a change in the post retirement interest assumption from 5 percent to 6 percent. This increase recognizes that future post retirement annual adjustments will be 1 percent less. Members who terminate service after June 30, 1997 and whose benefits commence during the period July 2, 1997 through July 1, 2002 receive a percentage of the July 1, 1997 permanent increase as follows:

July 2, 1997 - July 1, 1998	50%
July 2, 1998 - July 1, 1999	40%
July 2, 1999 - July 1, 2000	30%
July 2, 2000 - July 1, 2001	20%
July 2, 2001 - July 1, 2002	10%

Annuity Plan Options

Six different annuity plan options are available to TRA members providing monthly benefit payments for as long as the annuitant lives. Plan A-1 provides the highest possible monthly benefit, but terminates upon the member's death. A member may choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features.

- 1. Life Plan A-1, For Life of Member
- Life Plan B-1, Guaranteed Refund
- 3. Life Plan C-3, 15-Year Term Certain and Life Thereafter
- 4. Life Plan E-1, 100% Survivorship with "Bounceback"
- 5. Life Plan E-2, 50% Survivorship with "Bounceback"
- 6. Life Plan E-3, 75% Survivorship with "Bounceback"

Post Fund Increases

The required reserves needed to pay retirement benefits are transferred from TRA's regular assets to the Minnesota Post Retirement Investment Fund (Post Fund) at the time of retirement. Each year, the Post Fund may provide a benefit adjustment that is based on two components: 1) the increases in the cost of living as reflected by the Consumer Price Index (CPI), and 2) the investment performance of the high-quality bonds and stocks in the Post Fund portfolio.

The cost-of-living component is paid up to a maximum of 2.5 percent based on the CPI increase determined at the end of each fiscal year for the preceding 12-month period. The cost-of-living component is paid each year regardless of the amount of investment return.

The potential for a greater increase is provided by the investment component that is based on investment returns in excess of the amount needed to pay the costof-living component and to cover the six percent earnings assumption that determined the original benefit at retirement.

There is a guarantee that benefits will never be decreased below the original amount established at retirement as adjusted by the annual increases.

Combined Service Annuity

Any vested member having combined service credit with any two or more Minnesota public retirement funds that participate in the combined service annuity program, may elect to receive a combined service annuity upon compliance with eligibility requirements for retirement.

Refunds

Upon termination of teaching service and application, TRA will issue a refund of a member's accumulated contributions plus 5 percent interest compounded annually if termination occurred before May 16, 1989, and 6 percent interest compounded annually if termination occurred on or after May 16, 1989. A

refund will be issued only if the member has officially resigned from employment and the official refund application form is submitted no sooner than 30 days after termination of teaching service.

Repayment of Refunds

Members who return to teaching service after previously withdrawing their contributions may repay these contributions upon completing two years of allowable service. The repayment must include interest of 8.5 percent, compounded annually from the date of the refund. The minimum portion of a refund repayment is ¹/₃ of the total service credit period for all refunds previously taken.

Disability Benefits

An active member, who becomes disabled after at least three years of allowable service, is eligible to apply for a total and permanent disability benefit provided at least two of the required three years of allowable service are performed after last becoming a member. State statute defines total and permanent disability as the inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to be of long continued and indefinite duration. An indefinite duration is a period of at least one year.

Survivor Benefits

If a Coordinated member dies before retirement, the total amount of accumulated contributions plus 6 percent interest compounded annually is paid to the surviving spouse or, if there is none, to the designated beneficiary. Any survivor benefits payable from Social Security are in addition to the TRA survivor benefit. In some cases, a joint and survivor annuity (described below) may be selected instead of this benefit.

If a Basic member dies before retirement, survivor benefits are payable to a dependent spouse and/or dependent children. The minimum benefit is equal to 50 percent of the Basic member's monthly average

salary paid in the last full fiscal year preceding death, subject to a family maximum of \$1,000 per month. In some cases, a joint and survivor annuity (described below) may be selected instead of this benefit.

If the member is not married and there are no dependent children, then the total amount of accumulated contributions plus 6 percent interest compounded annually is paid to the designated beneficiary.

Joint and Survivor Annuity

The surviving spouse of a married member with at least three years of allowable service credit may elect to receive the joint and survivor annuity benefit instead of the lump sum benefit. The annuity is payable monthly to the spouse or to a designated beneficiary for as long as the spouse or beneficiary lives; however, payments terminate upon the death of the spouse or beneficiary with no remaining benefits for other beneficiaries. In lieu of a lifetime benefit, only a spouse may elect to receive actuarially equivalent payments for a period certain of 5, 10, 15 or 20 years.

The amount of the annuity is based upon the High-Five Formula and the ages of the member and the spouse or designated beneficiary at the time of the member's death. The member's accumulated deductions and interest plus the employer's contributions are used to provide the benefit. The surviving spouse of an eligible member has a choice of the joint and survivor annuity benefit or the lump sum benefit. If there is no surviving spouse, actuarially equivalent payments may be made for a period certain for any surviving dependent child under the age of 20.

Ten-Year Summary of Revenue

(By Source)

Year Ended June 30	Member Contributions	Employer Contributions	Net Investment Income	Other	Total
1990	\$ 84,542,414	\$166,098,804	\$ 515,536,558	\$ 926,288	\$ 767,104,064
1991	89,313,081	159,439,219	426,529,649	1,964,986	677,246,935
1992	91,505,605	162,369,508	707,624,183	1,942,689	963,441,985
1993	94,709,399	168,070,511	682,492,365	2,347,431	947,619,706
1994	100,803,239	171,854,594	703,964,661	8,752,052	985,374,546
1995	143,535,906	179,671,657	659,253,303	553,171	983,014,037
1996	148,051,326	184,495,447	1,213,973,588	713,733	1,547,234,094
1997	154,160,516	191,670,080	2,296,019,494	704,736	2,642,554,826
1998	124,095,573	151,322,830	2,637,948,298	1,329,869	2,914,696,570
1999	132,040,005	130,525,591	1,775,404,067	1,587,211	2,039,556,874

Ten-Year Summary of Expenditures

(By Type)

Year Ended	Retirement	Survivor	Disability		Administrativ	7 0	
June 30		Benefits	Benefits	Refunds	Expenses	Other	Total
1990	\$174,693,669	\$2,641,650	\$2,456,735	\$6,445,983	\$2,631,691	\$ -0-	\$188,869,728
1991	194,589,338	2,921,349	2,904,585	5,554,181	2,790,089	714,476	209,474,018
1992	220,352,768	3,314,799	3,399,088	5,494,749	2,895,659	775,682	236,232,745
1993	249,018,533	3,719,037	3,892,680	4,749,970	3,124,192	191,470	264,695,882
1994	300,482,282	4,341,112	4,213,376	3,583,342	3,338,007	614,377	316,572,496
1995	328,764,719	5,125,383	4,967,050	4,619,063	3,665,748	2,008,430	349,150,393
1996	366,352,840	6,080,640	5,638,668	5,039,811	3,835,501	620,477	387,567,937
1997	414,414,893	6,887,894	6,285,354	10,898,914	4,552,372	638,751	443,678,178
1998	517,008,277	9,027,669	7,815,166	5,689,067	5,417,370	1,226,839	546,184,388
1999	602,176,461	9,891,582	8,869,921	6,271,448	7,976,908	1,764,550	636,950,870

Summary of Changes in Membership

Fiscal Year Ending June 30, 1999

Active and Inactive Members

	A	ctive	Inactive		
	Basic	Coordinated	Basic	Coordinated	
Total July 1, 1998	32	68,215	61	23,846	
Additions					
New hires	_	5,159	_	_	
New inactives from active	_	_	_	4,250	
Returns from inactive		1,514	_	_	
Returns from retired		585	_	_	
Returns from terminated		_	_	35	
Restored write-offs		208	_	106	
Repaid refunds		_	6	669	
Transfers from nonstatus	_	_	_	81	
Deletions					
Service retirements	(7)	(2,528)	(17)	(873)	
Deaths	(1)	(41)	_	(51)	
Refunds	_	(450)	(1)	(767)	
Writeoffs		_	_	_	
Terminated (no refund)		(4,250)	_	_	
Returns to active		_	_	(1,514)	
Transfers to IRAP		(10)	_	_	
Data adjustments	(1)	188	<u> </u>	(9)	
Total June 30, 1999	<u>23</u>	68,590	49	25,773	

	Basic	Coordinated	
	System	System	Total
Active	23	68,590	68,613
Inactive	49	_25,773	25,822
Total	72	94,363	94,435

Summary of Changes in Membership (continued)

Fiscal Year ending June 30, 1999

Annuitants

		Basic		Coordinated			
	Men	Women	Total	Men	Women	Total	
Total annuitants July 1, 1998	1,985	2,887	4,872	9,521	10,683	20,204	
Members retired during year	11	11	22	1,446	1,480	2,926	
Adjustments			_	(3)	4	1	
Annuities cancelled				(3)	_	(3)	
Annuitants deceased during year	(34)	(138)	(172)	(167)	(235)	(402)	
Total annuitants June 30, 1999	1,962	2,760	4,722	10,794	11,932	22,726	
Annuitants not receiving warrants							
June 30, 1999				(5)	(5)	(10)	
Total active annuitants June 30, 1999	1,962	2,760	4,722	10,789	<u>11,927</u>	22,716	

Other Annuitants

_	Former College Supplemental Retirement Annuities			Former Variable Annuities		
	Men	Women	Total	Men	Women	Total
Active annuitants July 1, 1998	73	47	120	521	320	841
Members re-employed or terminated by law				(1)		(1)
Annuitants deceased during year	_(2)		(2)	_(4)	(4)	(8)
Total annuitants June 30, 1999	71	47	118	516	316	832
Annuitants not receiving warrants June 30, 1999 Total other annuitants June 30, 1999	<u></u>	<u>47</u>	118	<u></u>	316	

Summary of Changes in Membership (continued)

Fiscal Year ending June 30, 1999

Beneficiaries of Members Deceased Prior to Retirement

	Joint & Survivor			Survivor			
		Annuities			Annuities		
	Men*	Women*	Total	Men	Women	Total	
July 1, 1998	351	154	505	2	63	65	
Added during year	24	22	46	3		3	
Terminated during year	(4)	(6)	(10)	_		_	
Cancellation	(5)	(4)	(9)	_		_	
Total June 30, 1999	366	166	<u>532</u>	<u>5</u>	63	68	
				l			

^{*} Gender of member

Disabilitants	Basic System			Coordinated System			
	Men	Women	Total	Men	Women	Total	
July 1, 1998	10	4	14	195	250	445	
Added during year		_		29	42	71	
Died during year		_		(9)	(10)	(19)	
Transferred to retirement	(4)	(1)	(5)	(10)	(13)	(23)	
Resumed employment		<u>—</u>		_(3)	_(3)	<u>(6)</u>	
Total Active Disabilitants June 30, 1999	<u>_6</u>	<u>3</u>	<u>9</u>	<u>202</u>	<u>266</u>	<u>468</u>	

Beneficiaries of Retired Members

	Basic System			Coordinated System		
	Men*	Women*	Total	Men*	Women*	Total
July 1, 1998	217	50	267	665	163	828
Added during year	25	5	30	99	37	136
Annuities terminated by law	(5)	(6)	(11)	(15)	(12)	(27)
Deaths	(8)	(3)	(11)	(15)	(2)	(17)
Total June 30, 1999	<u>229</u>	<u>46</u>	<u>275</u>	<u>734</u>	<u>186</u>	<u>920</u>

^{*} Gender of member

Distribution of Active Members

As of June 30, 1999

Years of Service									
Age	< 1	1-4	5-9	10-14	15-19	20-24	25-29	30+	All
< 25	1,750	204	1						1,955
25-29	1,875	5,390	954	1					8,220
30-34	953	2,623	4,144	429					8,149
35-39	916	1,523	1,971	2,806	238				7,454
40-44	805	1,582	1,686	1,649	2,237	549	1		8,509
45-49	830	1,630	1,645	1,921	1,488	3,584	862		11,960
50-54	551	1,125	1,084	1,516	1,337	1,968	4,662	852	13,095
55-59	311	503	502	593	679	801	1,797	1,809	6,995
60-64	167	197	160	210	163	270	383	293	1,843
65+	142	106	49	22	15	30	24	45	433
All	8,300	14,883	12,196	9,147	6,157	7,202	7,729	2,999	68,613

Average Annual Earnings of Active Members

For Fiscal Year Ended June 30, 1999

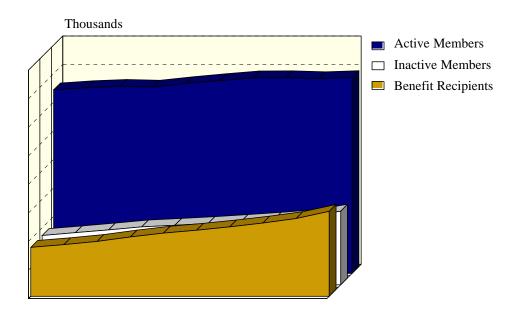
Years of Service									
Age	< 1	1-4	5-9	10-14	15-19	20-24	25-29	30+	All
< 25	19,700	26,873	33,065						20,440
25-29	17,812	26,742	33,160	16,493					25,449
30-34	16,804	26,311	34,087	39,360					29,841
35-39	16,614	26,298	34,713	41,842	46,819				33,840
40-44	14,692	24,659	34,739	42,851	46,162	49,317	46,097		36,485
45-49	14,644	23,317	34,461	41,063	47,377	50,014	51,449		40,119
50-54	13,584	22,167	33,980	42,788	47,083	50,807	52,627	54,698	44,980
55-59	10,506	20,493	29,888	40,558	46,483	51,693	55,925	56,702	46,986
60-64	10,857	12,067	23,457	38,316	45,656	51,065	57,440	59,364	41,569
65+	16,493	8,614	20,123	34,132	50,771	47,615	59,175	58,340	25,930
All	16,626	25,146	33,876	41,715	46,714	50,394	53,520	56,417	37,024

Ten-Year Summary of Membership

Year Ended June 30	Active <u>Members</u>	Inactive Members	Benefit Recipients
1990	64,324	17,311	17,136
1991	65,093	18,273	18,094
1992	65,557	19,242	19,212
1993	65,268	20,309	20,810
1994	66,514	20,901	22,137
1995	67,558	21,514	23,168
1996	68,490	22,211	24,307
1997	68,554	23,009	25,681
1998	68,247	23,907	27,228
1999	68,613	25,822	29,749

Ten-Year Summary of Membership

(In Thousands)



Schedule of Participating Employers

As of June 30, 1999

Independent School Districts (344)

Ada-Borup #2854 Adrian #511 Aitkin #1 Albany #745 Albert Lea #241 Alden #242 Alexandria #206 Annandale #876 Anoka-Hennepin #11

Ashby #261

Atwater-Cosmos-Grove City #2396

Audubon #21 Austin #492 BDRSH #3001 Badger #676 Bagley #162 Balaton #411 Barnesville #146 Barnum #91 Battle Lake #542 Becker #726

Belgrade-Brooten-Elrosa #2364

Belle Plaine #716 Bellingham #371 Bemidji #31 Benson #777 Bertha-Hewitt #786 Big Lake #727

Bird Island-Olivia-Lake Lillian #2534

Blackduck #32 Blooming Prairie #756 Bloomington #271 Blue Earth #2860 Braham #314 Brainerd #181 Brandon #207 Breckenridge #846 Brewster #513 Brooklyn Center #286 Browerville #787 Browns Valley #801 Buffalo #877

Buffalo Lake-Hector #2159

Burnsville #191 Butterfield #836 Byron #531 Caledonia #299 Cambridge-Isanti #911 Campbell-Tintah #852

Canby #891 Cannon Falls #252 Carlton #93 Cass Lake #115

Cedar Mountain #2754

Centennial #12 Chaska #112 Chatfield #227 Chisago Lakes #2144 Chisholm #695 Chokio-Alberta #771 Clearbrook-Gonvick #2311

Cleveland #391 Climax #592

Clinton-Graceville-Beardsley #2888

Cloquet #94

Columbia Heights #13 Comfrey #81 Cook County #166 Cromwell #95 Crookston #593 Crosby-Ironton #182 Cyrus #611 Dassel-Cokato #466 Dawson #378 Deer River #317 Delano #879

Detroit Lakes #22

Dilworth-Glyndon-Felton #2164

Dover-Evota #533 Duluth #709 Eagle Valley #2759 East Central #2580 East Grand Forks #595 Eden Prairie #272 Eden Valley #463 Edgerton #581

Edina #273 Elgin-Millville #806 Elk River #728 Ellsworth #514

Ely #696

Esko #99 Evansville #208 Eveleth-Gilbert #2154 Fairmont-Ceylon #2752 Faribault #656 Farmington #192 Fergus Falls #544

Fertile-Beltrami #599 Fillmore Central #2198 Fisher #600 Floodwood #698

Foley #51 Forest Lake #831 Fosston #601 Frazee #23 Fridley #14 Fulda #505

Gibbon-Fairfax-Winthrop #2365 Glencoe-Silver Lake #2859 Glenville-Emmons #2886

Goodhue #253 Goodridge #561

Granada-Huntley-E. Chain #2536

Grand Meadow #495 Grand Rapids #318

Greenbush-Middle River #2683

Greenway #316 Grygla #447 Hancock #768 Hastings #200 Hawley #150 Hayfield #203 Hendricks #402 Henning #545 Herman-Norcross #264 Hermantown #700

Heron Lake-Okabena #330 Hibbing #701 Hill City #2

Hills-Beaver Creek #671 Hinckley-Finlayson #2165 Holdingford #738

Hopkins #270 Houston #294

Howard Lake-Waverly-Winsted #2687

Hutchinson #423 International Falls #361 Inver Grove Heights #199

Isle #473 Ivanhoe #403

Jackson County Central #2862 Janesville-Waldorf-Pemberton #2835

Jordan #717

Karlstad-Strandquist #2358 Kasson-Mantorville #204

Kelliher #36

Kenyon-Wanamingo #2172 Kerkhoven-Murdock-Sunburg #775

Kimball #739 Kingsland #2137 Kittson Central #2171 La Crescent-Hokah #300 Lake Benton #404 Lake City #813

Lake Crystal-Wellcome Memorial

Lake of the Woods #390 Lake Park #24 Lake Superior #381 Lakeview #2167 Lakeville #194 Lancaster #356

Lanesboro #229 Newfolden #441 Russell #418 Laporte #306 Nicollet #507 Ruthton #584

Le Center #392 Norman Cty East #2215 St. Anthony-New Brighton #282

Le Roy #499 Norman Cty West #2527 St. Charles #858 Lester Prairie #424 North Branch #138 St. Clair #75 Le Sueur-Henderson #2397 North St. Paul-Maplewood #622 St. Cloud #742 Lewiston #857 Northfield #659 St. Francis #15 Litchfield #465 Norwood Young America #108 St. James #840

Little Falls #482 Ogilvie #333 St. Louis County #2142 Littlefork-Big Falls #362 Oklee #627 St. Louis Park #283 St. Michael-Albertville #885 Long Prairie-Grey Eagle #2753 Onamia #480

Luverne #2184 Orono #278 St. Peter #508 Lyle #497 Ortonville #62 Sartell #748 Lynd #415 Osakis #213 Sauk Centre #743 MACCRAY #2180 Sauk Rapids #47 Osseo #279 Mabel-Canton #238 Owatonna #761 Sebeka #820 Madelia #837 Park Rapids #309 Shakopee #720 Mahnomen #432 Parkers Prairie #547 Sibley East #2310 Mahtomedi #832 Paynesville #741 Sioux Valley #328 Mankato #77 Pelican Rapids #548 Sleepy Eye #84

So. Koochiching #363 Maple Lake #881 Pequot Lakes #186 Maple River #2135 Perham #549 So. St. Paul #6

Pierz #484 So. Washington County #833 Marshall #413

Martin Co. W #2448 Pillager #116 Southland #500 McLeod west #2887 Pine City #578 Spring Grove #297 McGregor #4 Pine Island #255 Spring Lake Park #16 Medford #763 Pine Point #3333 Springfield #85 Melrose #740 Pine River-Backus #2174 Staples-Motley #2170 Menahga #821 Pipestone-Jasper #2689 Stephen-Argyle #2856 Plainview #810 Stewartville #534 Mentor #604 Plummer #628 Stillwater #834 Mesabi East #2711 Swanville #486 Milaca #912 Princeton #477 Milroy # 635 Thief River Falls #564 Prinsburg #815

Minneota #414 Prior Lake #719 Tracy #417 Minnetonka #276 Proctor #704 Tri District #6067 Minnewaska Area #2149 Randolph #195 Triton #2125 Montevideo #129 Red Lake #38 Truman #458 Tyler #409 Montgomery #394 Red Lake Falls #630 Monticello #882 Red Rock Central #2884 Ulen-Hitterdal #914 Moorhead #152 Red Wing #256 Underwood #550

Moose Lake #97 Redwood Falls #2758 United South Central #2134

Mora #332 Remer #118 Upsala #487 Morris #769 Richfield #280 Verndale #818 Mounds View #621 Robbinsdale #281 Virginia #706 Mountain Iron-Buhl #712 Rochester #535 Wabasha-Kellogg #811

Mountain Lake #173 Rockford #883 Wabasso #640 Murray County Central #2169 Rocori #750 Waconia #110

NRHEG #2168 Roseau #682 Wadena-Deer Creek #2155 Nashwauk-Keewatin #319 Rosemount-Apple Valley-Eagan #196 Walker-Hackensack-Akeley #113

Nett Lake #707 Roseville #623 Walnut Grove #641

Nevis #308 Rothsay #850 Warren-Alvarado-Oslo #2176 Round Lake #516 New London-Spicer #345 Warroad #690

Royalton #485 Waseca #829 New Prague #721 Rush City #139 New Ulm #88 Watertown-Mayer #111

New York Mills #553 Rushford-Peterson #239 Waterville-Elysian-Morristown #2143 Waubun #435 Wayzata #284 West Central Area #2342 W St. Paul-Mendota Heights-Eagan #197 Westbrook #175 Westonka #277 Wheaton #803 White Bear Lake #624 Willmar #347 Willow River #577 Windom #177 Win-E-Mac #2609 Winona #861 Worthington #518 Wrenshall #100 Yellow Medicine East #2190 Zumbrota-Mazeppa #2805

Joint Powers Units (41)

Area Special Ed Coop Bemidji Regional Interdist. Council Benton-Stearns Ed. Dist. Border Region Ed. Dist. Carver-Scott Ed. Coop. Central Minnesota ERDC Central Minnesota ECSU Fergus Falls Area Special Ed. Coop. Freshwater Ed. Dist. Goodhue Co. Ed. Dist. Hiawatha Valley Ed. Dist. Intermediate School Dist. #287 Intermediate School Dist. #916 Intermediate School Dist. #917 Lac qui Parle Valley Lake Agassiz Special Ed. Coop. Lakes Country Services Coop Meeker & Wright Special Ed. Coop Metro Education Coop. Unit Midstate Ed. Dist. Midwest Special Ed. Coop. MN River Valley Special Ed. Coop. MN Valley Ed. Dist. MN Valley Cooperative North Central ECSU #5 N. Country Vocational Coop. Ctr. Northeast Ed. Dist. Northwest MN ECSU Northwest Reg. Interdist. Council Pine to Prairie Coop. Center Riverbend Ed. Dist. Root River Ed. Dist. Runestone Area Ed. Dist. Southwest/West Central ECSU South Central ECSU

Southeast ECSU Technology and Information Educational Services (TIES) West Central Ed. Dist. West Central Migrant Project Wright Technical Center

MN State Colleges and Universities (39)

Akita Japan State University

Alexandria Technical College

Zumbro Ed. Dist.

Anoka-Hennepin Technical College Anoka-Ramsey Community College Bemidji State University Central Lakes College Century Community & Technical College Dakota County Technical College Fergus Falls Community College Fond Du Lac Community College Hennepin Technical College Hibbing Community College Inver Hills Community College Itasca Community College Lake Superior College Mesabi Range Community & Technical College Metropolitan State University Minneapolis Community & Technical College Minnesota West Community & Technical College MnSCU Board Office Moorhead State University North Hennepin Community College Normandale Community College Northland Community & Technical College Minnesota State University-Mankato Northwest Technical College Pine Technical College Rainy River Community College Red Wing/Winona Technical College Ridgewater College Riverland Community College Rochester Community & Technical College South Central Technical College Southwest State University St Cloud State University

St Cloud Technical College

St Paul Technical College

Vermilion Community College Winona State University

Charter Schools (15)

Bluffview Montessori #4001 Central MN Deaf School #4022 ECHO Charter School #4026 Eci Nompa Woonspe #4028 Emily Charter School #4012 Martin Hughes School #4040 New Country Charter School #4007 New Heights Charter School #4003 Odyssey Charter School #4030 PACT Charter School #4008 PEAKS Charter School #4040 Summit School for the Arts #4024 Toivola-Meadowlands Charter School #4002 Village School of Northfield #4021 World Learner Charter School #4016

State Agencies (17)

Anoka Metro Regional Treatment Ctr Brainerd Regional Human Services Ctr Department of Children, Families & Learning Department of Economic Security Faribault Residential Academies Fergus Falls Regional Treatment Ctr Higher Education Services Office MN Center for Arts Education MN Correctional Facility, Red Wing MN Correctional Facility, Sauk Center MN Correctional Facility, Thistledew MN Department of Corrections Minnesota Extended Treatment Options Moose Lake Regional Treatment Ctr St Peter Regional Treatment Ctr Teachers Retirement Association Willmar Regional Treatment Ctr

Professional Organizations (2)

Education Minnesota MN Association of School Administrators

APPENDIX D

Summary of the Commissioner's Order

The following is a brief section by section summary of the Order, which is qualified in its entirety by reference to the Order.

- Section 1. **Definitions**. This section sets forth definitions for various terms used in the Order. These terms and their definitions are set forth in Appendix A and are also used in this Official Statement.
- Section 2. **Recitals**. This section sets forth certain recitals of fact establishing the purpose for and the authority to issue the Revenue Bonds.
- Section 3. **Authorization Of Bonds; Use Of Proceeds**. This section authorizes the issuance of the Revenue Bonds and directs application of the proceeds of the Revenue Bonds, exclusive of accrued interest, to the payment of the Facility, and the payment of the issuance expenses of the Bonds.
- Section 4. **Form of Bonds**. This section sets forth the form in which the Revenue Bonds will be issued. However, initially and for the foreseeable future the Revenue Bonds will be issued only to a securities depository (DTC) in accordance with Subsection 5.07 of the Order and no Registered Owner will receive a printed bond.
- Section 5. **Terms of Bonds; Regulations for Issuance**. This section is comprised of subsections 5.01 through 5.08. Subsections 5.01 through 5.03 set forth the principal amounts, maturities, interest rates and redemption provisions of the Revenue Bonds which are set forth elsewhere in this Official Statement.

Subsections 5.04 through 5.06 appoint The Chase Manhattan Bank, N.A. to serve as registrar and paying agent for the Revenue Bonds and establish regulations for handling registration of ownership, transfer, exchange, cancellation and replacement of lost or destroyed bonds as well as for determining ownership of a bond.

Subsection 5.07 provides for the establishment of a Book-Entry Only System for issuance of the Revenue Bonds and appoints DTC to act as securities depository to administer the Book-Entry Only System which is described in the test of this Official Statement under the heading "THE REVENUE BONDS - Book Entry System."

Subsection 5.08 establishes regulations pursuant to which the Revenue Bonds and the covenants made in the Order for their payment and security may be discharged and terminated. Discharge may be accomplished by either (1) by depositing with the Registrar an amount sufficient to pay all remaining principal and interest on the Revenue Bonds to and including their stated maturity dates, or (2) by depositing irrevocably in escrow, with a qualified bank, cash or Permitted Investments bearing interest payable at such time and at such rates and maturing or callable at the holder's option on such dates as shall be required to pay all principal and interest to become due on the Revenue Bonds and including their stated maturity dates.

- Section 6. **Security For Revenue Bonds**. This section sets forth covenants for the payment and security of the Revenue Bonds. It provides for the establishment and administration of a Pension Building Debt Service Fund and the deposit, transfer, investment and disbursement of Pledged Assets appropriated by the Act for the payment of and security of the Revenue Bonds. In this section the Commissioner convenants to enforce all obligations of the Retirement Systems under the Joint Payment and Pledge Agreement.
- Section 7. **Official Statement**. This section designates the completed Official Statement, to be dated as of the date of sale of the Revenue Bonds, as a final official statement under Securities and Exchange Commission Rule 15c2-12 and authorizes its distribution by the initial underwriter of the Revenue Bonds to purchasers and prospective purchasers of the Revenue Bonds.
- Section 8. **Covenants Relating To Tax Exemption**. This section sets forth the covenants of the Commissioner, on behalf of the State and for the benefit of the holders from time to time of the Revenue Bonds, with respect to maintaining the tax-exemption of interest to be paid on the Revenue Bonds. Subsection 9.01 sets

forth the Commissioner's covenants to comply with Section 148 of the Code relating to "arbitrage bonds" and "arbitrage rebate."

Subsection 9.02 sets forth the Commissioner's covenant to avoid use of the Revenue Bond proceeds in a manner which would cause the Revenue Bonds to be classified as "private activity bonds."

Section 9. **Compliance With Reimbursement Bond Regulations**. The provisions of this section establish and provide for compliance with the reimbursement regulations under the Code which establish the conditions under which expenditures made with respect to the Facility prior to the issuance of the Revenue Bonds may be reimbursed with proceeds of the Revenue Bonds.

Section 10. **Continuing Disclosure**. This section sets forth the covenants and undertakings of the Commissioner, on behalf of the State and for the benefit of the Registered Owners from time to time of the Revenue Bonds, to comply with the continuing disclosure provisions of Securities and Exchange Commission Rule 15c2-12, paragraph (b)(5). The Continuing Disclosure Undertaking is set forth in its entirety in Appendix E.

Section 11. **General Covenants; Registered Owners Rights**. This section is comprised of subsections 11.01 through 11.05. Subsection 11.01 provides that the covenants and agreements of the Commissioner set forth in the Order shall constitute a contract with and for the benefit of the Registered Owners from time to time of the Bonds, and that the contract is enforceable in the District Court for Ramsey County, Minnesota. Other venues for enforcement are not available.

Subsection 11.02 affirms that the Commissioner's covenants and agreements can be enforced by judicial proceeding instituted by any Registered Owner without the consent of any other Registered Owner, but that any enforcement action is for the equal and ratable benefit of all Registered Owners, and any moneys recovered are required to be deposited and credited to the Pension Building Debt Service Fund and applied as provided in the Order, as amended and supplemented from time to time.

Subsection 11.03 acknowledges that a Registered Owner seeking to enforce the Commissioner's covenants and agreements may employ a financial institution, having agency or trust powers which is authorized to transact business in the State, to institute, conduct, prosecute, settle and take all other action necessary for a judicial proceeding for this purpose, in its own name as agent or trustee for and on behalf of the Registered Owner.

Subsection 11.04 provides that the Commissioner, upon the occurrence of certain events, will cooperated with any Registered Owner in communicating with other Registered Owners (including the Beneficial Owners of Revenue Bonds held by DTC for DTC Participants) with respect to actions proposed to be taken pursuant to subsections 11.01 through 11.03.

Section 12. **Amendments**. This section establishes regulations for the amendment of the Order with and without the consent of the Registered Owners of the Revenue Bonds.

Subsection 12.01 provides for the amendment of the Order by the Commissioner without consent for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained herein, or of making such provisions with regard to matters or questions arising hereunder as the Commissioner may deem necessary or desirable and not inconsistent with the Order, and which shall not adversely affect the interests of the Registered Owners of the Revenue Bonds, or for the purpose of adding to the covenants and agreements contained in the Order, or to the Pledged Assets provided herein for the payment of the Revenue Bonds, other covenants and agreements thereafter to be observed and additional revenues or income thereafter appropriated to the Pension Building Debt Service Fund, or for the purpose of surrendering any right or power herein reserved to or conferred upon the Commissioner.

Subsection 12.02 provides for other amendments to the Order with the consent of two-thirds of the Registered Owners of Outstanding Revenue Bonds affected thereby, except that the consent of the Registered Owners of all Outstanding Revenue Bonds affected thereby is required to approve any amendment which would extend the time of payment of interest thereon, would reduce the amount of the principal thereof or redemption premium thereon, would give to any Revenue Bond any privileges over any other Revenue Bond, would reduce the

Pledged Assets appropriated or required to be transferred to the Pension Building Debt Service Fund, or would reduce the percentage in principal amount of Revenue Bonds required to authorize or consent to any such amendment.

Subsection 12.03 establishes the percentage of Registered Owners who must consent to amendments to the Order, other than as provided in Subsections 12.01 or 12.02, as the Registered Owners of not less than two-thirds in aggregate principal amount of the Outstanding Revenue Bonds. Subsection 12.03 also establishes regulations as to the manner of obtaining consents, the required form and execution of consents, revocations of consents, and the effect of consents provided and requests for consent not responded to.

Section 13. **Sale And Delivery**. This section recites certain facts relative to the sale of the Revenue Bonds and the bids received for their purchase and awards the sale and authorizes the execution and delivery of the Revenue Bonds.

APPENDIX E

Continuing Disclosure Undertaking

This Continuing Disclosure Undertaking (the "Disclosure Undertaking") is executed and delivered by the Commissioner of Finance of the State of Minnesota (the "Commissioner"), Public Employees Retirement Association ("PERA"), Teachers Retirement Association ("TRA") and Minnesota State Retirement System ("MSRS") in connection with the issuance by the Commissioner of \$29,000,000 Retirement System Building Revenue Bonds, Series 2000 (the "Bonds"). The Bonds are being issued pursuant to Minnesota Statutes, Section 356.89 (the "Act") and an Order of the Commissioner of Finance dated as of June 1, 2000 (the "Order"). Pursuant to this Undertaking, the Commissioner and the parties hereto covenant and agree as follows:

SECTION 1. <u>Purpose of the Disclosure Undertaking</u>. This Disclosure Undertaking is being executed and delivered by the Commissioner and by PERA, TRA and MSRS (collectively, the "Retirement Systems") for the benefit of the Owners and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5).

SECTION 2. <u>Definitions</u>. In addition to the definitions set forth in the Order, which apply to any capitalized term used in this Disclosure Undertaking, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any annual financial information provided by the Retirement Systems pursuant to, and as described in, Sections 3 and 4 of this Disclosure Undertaking.

"Audited Financial Statements" shall mean collectively the financial statements of each of the Retirement Systems audited annually by the Office of the Legislative Auditor or another independent certified public accounting firm, prepared pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, as modified by governmental accounting standards promulgated by the Government Accounting Standards Board.

"Dissemination Agent" shall mean the Commissioner or any other party from time to time designated in writing by the Commissioner to act as information dissemination agent and which has filed with the Commissioner a written acceptance of such designation.

"Fiscal Year" shall be the fiscal year or years of the Retirement Systems.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories as of the date of execution of this Undertaking are as listed on Exhibit A.

"Occurrence(s)" shall mean any of the events listed in Section 5.A. of this Disclosure Undertaking.

"Official Statement" shall be the Official Statement dated ______, 2000, prepared in connection with the Bonds.

"Owners" shall mean the registered holders and, if not the same, the beneficial owners of any Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Depository.

"Retirement Systems" shall mean collectively the Public Employees Retirement Association, Teachers Retirement Association and the Minnesota State Retirement System.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time or interpreted by the Securities and Exchange Commission.

"State" shall mean the State of Minnesota.

"State Depository" shall mean any public or private repository or entity designated by the State as a state depository for the purpose of the Rule. As of the date of this Disclosure Undertaking, there is no State Depository in Minnesota.

SECTION 3. Provision of Annual Reports.

- A. Beginning in connection with the Fiscal Year ending on June 30, 1999, the Retirement Systems shall, or shall cause the Dissemination Agent to provide to each Repository as soon as available, but in any event not later than February 1, 2000, and by February 1 of each year thereafter, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Undertaking.
- B. If any of the Retirement Systems are unable to provide to the Repositories an Annual Report by the date required in subsection A, such Retirement System shall send a notice of such delay and estimated date of delivery to the Commissioner, each Repository or to the MSRB and to the State Depository, if any.
- SECTION 4. <u>Content and Format of Annual Reports</u>. The Retirement Systems' Annual Report shall contain or incorporate by reference the financial information and operating data pertaining to each of the Retirement Systems listed below as of the end of the preceding Fiscal Year. The Annual Report may be submitted to each Repository as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Disclosure Undertaking.

The following financial information and operating data shall be supplied:

- A. an update of the information contained in the table of the Retirement Systems' assets in the Official Statement under the heading "SECURITY FOR THE REVENUE BONDS Security for Debt Service Payments" and the type of information contained in the Official Statement under the captions "THE RETIREMENT SYSTEMS," "INVESTMENTS," "PENSION FUND DEPOSITORY ACCOUNTS CASH FLOW," and "RETIREMENT SYSTEMS FUNDING";
- B. Audited Financial Statements. The Audited Financial Statements of each of the Retirement Systems may be submitted to each Repository separately from the balance of the Annual Report. In the event Audited Financial Statements of each of the Retirement Systems are not available on or before the date for filing the Annual Report with the appropriate Repositories as set forth in Section 4.A. above, unaudited financial statements shall be provided as part of the Annual Report. The accounting principles pursuant to which the financial statements will be prepared will be pursuant to generally accepted accounting principles promulgated by the Financial Accounting Standards Board, as such principles are modified by the governmental accounting standards promulgated by the Government Accounting Standards Board, as in effect from time to time. If Audited Financial Statements are not provided because they are not available on or before the date for filing the Annual Report, the Retirement Systems shall promptly provide them to the Repositories when available.

SECTION 5. Reporting of Significant Events.

A. This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) principal and interest payment delinquency;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the security;
- (7) modifications to rights of security holders;
- (8) optional or unscheduled redemption of any Bonds;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Certificates; and
- (11) rating changes.
- B. Whenever an event listed in Section 5.A. above has occurred, the Commissioner shall as soon as possible determine if such event would constitute material information for Owners of Bonds. If knowledge of the Occurrence would be material, the Commissioner shall promptly file a notice of such Occurrence with each National Repository or the MSRB and with the State Depository, if any.
- C. The Commissioner agrees to provide or cause to be provided, in a timely manner, to each National Repository or the MSRB and to the State Depository, if any, notice of a failure by the Retirement Systems to provide the Annual Reports described in Section 4.
- SECTION 6. <u>Termination of Reporting Obligation</u>. The obligations of the Commissioner and the Retirement Systems under this Disclosure Undertaking shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.
- SECTION 7. <u>Dissemination Agent</u>. The Commissioner may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.
- SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Undertaking, the Commissioner and the Retirement Systems may amend this Disclosure Undertaking, and any provision of this Disclosure Undertaking may be waived, if (a) a change in law or change in the ordinary business or operation of the Retirement Systems has occurred, (b) such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, and (c) such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not materially impair the interests of Owners.
- SECTION 9. <u>Additional Information</u>. Nothing in this Disclosure Undertaking shall be deemed to prevent the Commissioner and any of the Retirement Systems from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Report or notice of an Occurrence, in addition to that which is required by this Disclosure Undertaking. If the Commissioner or any of the Retirement Systems choose to include any information in any Annual Report or notice of an Occurrence in addition to that which is specifically required by this Disclosure Undertaking, the Commissioner or any of the Retirement Systems, as the case may be, shall have no obligation

under this Disclosure Undertaking to update such information or include it in any future Annual Report or notice of an Occurrence.

SECTION 10. <u>Default</u>. In the event of a failure of the Commissioner or any of the Retirement Systems to provide information required by this Disclosure Undertaking, any Owner may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations to provide information under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Order or the Bonds, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Commissioner or any of the Retirement Systems to comply with this Disclosure Undertaking shall be an action to compel performance.

SECTION 11. <u>Beneficiaries</u>. This Disclosure Undertaking shall inure solely to the benefit of the Commissioner, the Retirement Systems, the Participating Underwriters and Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. <u>Reserved Rights</u>. The Commissioner and the Retirement Systems reserve the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or, subject to the provisions of Section 8 hereof, to modify the undertaking under this Disclosure Undertaking if the Commissioner or any of the Retirement Systems determine that such modification is required by the Rule or by a court of competent jurisdiction.

DEPARTMENT OF FINANCE

	DEFINITION THANKE
Date:, 2000	By Commissioner of Finance PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
	ByExecutive Director TEACHERS RETIREMENT ASSOCIATION
	ByExecutive Director
	MINNESOTA STATE RETIREMENT SYSTEM
	By

APPENDIX F

Definition of Ratings

Moody's Investors Service, Inc.:

Aaa Bonds which are rated "Aaa" are judged to be of the best quality. Interest payments are protectd by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Standard & Poor's Ratings Group:

AAA Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest an repay principal is extremely strong.

Fitch Investors Service, L.P.:

AAA Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal which is unlikely to be affected by reasonably foreseeable events.

APPENDIX G

Form of Bond Counsel Opinion

The Honorable Pamela Wheelock Commissioner of Finance 658 Cedar Street – 4th Floor Saint Paul, Minnesota 55155

Re: \$29,000,000 Retirement System Building Revenue Bonds, Series 2000

Dear Madam:

We have acted as Bond Counsel in connection with the issuance and delivery of \$29,000,000 Retirement System Building Revenue Bonds, Series 2000 (the "Bonds"). The Bonds recite that they are issued under and pursuant to, and are in strict conformity with, the Constitution and laws of the State. We have examined the law and such certified proceedings and other documents as deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of officers of Teachers Retirement Association, Minnesota State Retirement System and Public Employees Retirement Association (collectively, the "Retirement Systems") and the Commissioner of Finance of the State of Minnesota (the "Commissioner"), and upon the certified proceedings of the Retirement Systems and other certifications of public officials furnished to us (including, but not limited to, certifications as to the use of Bond proceeds) without undertaking to verify the same by independent investigation. Any capitalized terms used herein, which are not required by proper grammar to be capitalized, have the meanings given such terms in the Joint Payment Agreement herein after defined.

Based upon such examinations, and assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and the accuracy of the statements of fact contained in such documents, and based upon present Minnesota and Federal laws (which excludes any pending legislation which may have a retroactive effect prior to the date hereof), regulations, rulings and judicial or other decisions, it is our opinion that:

- 1. The Bonds have been authorized and issued in accordance with the Constitution and laws of the State, including Minnesota Statutes, Section 356.89 (the "Act"), and under and pursuant to an Order of the Commissioner of Finance dated as of June 1, 2000 (the "Order"). Pursuant to a Joint Payment and Pledge Agreement dated as of June 1, 2000, among the Commissioner and the Retirement Systems (the "Joint Payment Agreement"), the Retirement Systems have agreed to make Debt Service Payments sufficient to pay when due the principal and interest on the Bonds. The Retirement Systems have further agreed that upon the occurrence of a Debt Service Payment Default, that the Commissioner of Finance will receive a security interest in certain Available Assets of the Retirement System to secure the payment then in default.
- 2. The Bonds constitute valid and binding special, limited obligations of the State payable solely from and secured by certain Pledged Assets as defined and provided in the Order and the Joint Payment Agreement. The Bonds are not secured by the full faith and credit and taxing powers of the State and are not a general obligation or indebtedness of the State within the meaning of any constitutional or statutory limitation, and do not constitute or give rise to a pecuniary liability of the State. The Bonds and the interest thereon are not payable, in whole or in part, from any State tax. The Bonds, the Joint Payment Agreement and the Order are enforceable in accordance with their terms in the District Court of Ramsey County, Minnesota, except as such enforcement may be limited or rendered ineffective by judicial decisions or the application of principles of equity relating to or affecting the enforcement of creditor's rights or contractual obligations generally.
 - 3. At the time of the issuance and delivery of the Bonds to the original purchaser, the interest on the

Bonds is excluded from gross income for United States income tax purposes and is excluded, to the same extent, from both gross income and taxable net income for State of Minnesota income tax purposes (other than Minnesota franchise taxes measured by income and imposed on corporations and financial institutions), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations or the Minnesota alternative minimum tax applicable to individuals, estates or trusts; it should be noted, however, that for the purpose of computing the federal alternative minimum tax imposed on corporations, such interest is taken into account in determining adjusted current earnings. The opinions set forth in the preceding sentence are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes and from both gross income and taxable net income for State of Minnesota income tax purposes. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income and taxable net income retroactive to the date of issuance of the Bonds.

4. We express no opinion regarding the establishment, perfection or priority of any security interest in the Available Assets, and we express no opinion regarding other state or federal tax consequences caused by the receipt or accrual of interest on the Bonds or arising with respect to ownership of the Bonds.

Dated this ____ day of ______, 2000, in St. Paul, Minnesota

Professional Association

APPENDIX H

Form of Co-Tenancy Agreement

The Board of Directors of the Minnesota State Retirement System ("MSRS"), the Board of Trustees of the Public Employees Retirement Association ("PERA"), and the Board of Trustees of the Teachers Retirement Association ("TRA"), represented herein by their Executive Directors, enter into **THIS AGREEMENT** in order to formulate and adopt a written working agreement setting forth the retirement systems' collective and individual ownership interests, duties, and responsibilities relating to the construction and management of the Public Pension Facilities authorized under Laws of Minnesota 1999, Chapter 222, Article 22, Sections 1 through 6. ("1999 Law").

WHEREAS, the 1999 Law authorizes the Commissioner of Administration to provide, through lease, acquisition or construction, a building and related facilities to be jointly occupied by the Boards for the administration of their public pension systems;

WHEREAS, the Commissioner has purchased real property in Ramsey County, legally described as Lots 2 and 3, Block 2, Empire Builder Industrial Park, Ramsey County, upon which Public Pension Facilities are intended to be constructed;

WHEREAS, at their regularly scheduled public board meetings, the Boards adopted resolutions approving the acquisition of the land and the financing for, and construction of, Public Pension Facilities on that property and further, have authorized the Facility Construction Committee established under this agreement to enter into a separate Interagency Agreement with the Department of Administration setting forth their respective responsibilities relating to the design, construction, and management of the Public Pension Facilities;

WHEREAS, the 1999 law requires any land, building, or facilities leased, constructed, or acquired under its provisions to be held in trust for the three retirement systems as tenants in common and further requires each retirement system to consider its interest as a fixed asset of its pension fund in accordance with governmental accounting standards;

WHEREAS, the 1999 Law requires the Pension Boards to:

[A]dopt a written working agreement that sets forth the nature of each retirement System's ownership interest, the duties and obligations of each system toward the construction, operation, and maintenance costs of its facilities, and identifies one retirement system to serve as manager for operations and maintenance purposes;

WHEREAS, the Boards have previously entered into an Interagency Agreement dated October 20, 1999 regarding the payment and reimbursement of costs associated with the real estate acquisition and preparation and for the consulting services for designing and constructing the Public Pension Facilities under which the Public Employees Retirement Association serves as the "providing agency" with reimbursements to be made to it by the other two retirement systems if revenue bonds are not subsequently issued;

WHEREAS, the Boards agree that the creation of a Facilities Management Committee, consisting of representatives from all three Boards, to oversee the management of the Public Pension Facilities by the retirement system selected under this agreement to serve as "Manager" will most effectively and efficiently direct the operations of the Public Pension Facilities while at the same time assuring that the Boards continue to exercise an appropriate and reasonable degree of fiduciary oversight and control over the operations and management of the Public Pension Facilities;

WHEREAS, each of the retirement systems intends to utilize and occupy an agreed upon percentage of the Public Pension Facilities and the Boards agree that costs, expenses, revenues, pledges of assets for the payment of any revenue bonds issued under the 1999 Law, and any realized or recognized increases and/or decreases in the value of the Public Pension Facilities should be apportioned, shared, and/or recognized by each retirement system based upon each system's percentage of use and occupancy of the Public Pension facilities;

WHEREAS, Public Pension Facilities providing office space for all retirement systems in the same building serves the best interest of the Boards, the pension fund members they represent, Minnesota's public employers and Minnesota's taxpayers since it will prove to be more cost effective over the life of the facilities than would the retirement systems' continued rental of private properties and buildings;

WHEREAS, the Boards are each empowered to enter into interagency agreements pursuant to Minnesota Statutes Section 471.59, subdivision 10 and the 1999 law directs that they do so for purposes of managing and operating Public Pension Facilities:

NOW, THEREFORE, the Boards agree as follows:

SECTION 1. PURPOSE.

The Purpose of this Agreement is to adopt a written working agreement setting forth the nature of each retirement system's ownership interest in the Public Pension Facilities, the duties and obligations of each system toward the construction, operation, maintenance and debt service costs of the facilities, and the designation of one retirement system to serve as manager for operating and maintenance purposes, all as required under the 1999 Law. This agreement is also intended to set forth the steps and procedures to be followed in order to resolve disputes or uncertainties amongst the Boards relating to their collective and individual duties and responsibilities relating to the operation and management of the Public Pension Facilities.

SECTION 2. TERM OF AGREEMENT.

This Agreement shall be effective as of the date of the last signature hereto and shall remain in force and effect from year to year subject to amendment and shall not terminate in total unless there is a legislatively authorized sale of the Public Pension Facilities or divestiture of the Boards' interests therein.

SECTION 3. BINDING AGREEMENT.

This Agreement shall continue in full force and effect from year to year and shall be binding upon the Boards and their successors in interest, subject to amendment upon mutual agreement of the Boards. The duties and obligations under this agreement shall not be subject to termination or avoidance based upon a claim of breach of the agreement's provisions, material or otherwise, upon a claim of breach of one Board's respective duties and responsibilities, or for any other cause, and the duties and responsibilities of each Board may be specifically enforced through the dispute resolution provisions of Section 15 herein.

SECTION 4. DEFINITIONS.

- a. "Administrative Expenses" means the ongoing expenses related to managing, maintaining and operating the Facilities, including, but not limited to janitorial services, snow removal, lawn services, general building liability insurance that is not specific to any one retirement system's liability coverage, maintenance of the heating and cooling systems, general security of the Facilities, Capital Expenditures approved by the Facilities Management Committee and non-capital costs of the Facilities. Administrative Expenses also include any rebate payments imposed by the federal government related to the revenue bonds, if applicable, but does not mean the principal and interest payments required to be paid to the Pension Building Debt Service fund by each Board as defined in the Joint Payment and Pledge Agreement.
- b. "Assets" means the cash, short-term investments and long-term investments of all the defined benefit plans administered by the Retirement Funds.
- c. "Boards" refers collectively to the board of directors of the Minnesota State Retirement System, the board of trustees of the Public Employees Retirement Association, and the board of trustees of the Teachers Retirement Association.

- d. "Bonds" means the revenue bonds authorized by the 1999 Law to be issued by the Commissioner of Finance to finance the purchase and construction of the Public Pension Facilities.
- e. "Capital Expenditures" means any expenditure properly chargeable to a capital account under generally accepted accounting principals, including additions, improvements, repairs or replacements to the Public Pension Facilities.
- f. "Commissioner" means the Commissioner of Administration.
- g. "Public Pension Facilities" and/or "facilities" refers collectively to the land, buildings and related facilities which are purchased and/or constructed under the authority of the 1999 Law and held in trust by the state for the three retirement systems as tenants in common.
- h. "Facilities Management Committee" means the committee of six consisting of two representatives appointed by each Board, which will be responsible under this Agreement for making decisions on the ongoing operation and maintenance of the Facilities.
- i. "Facilities Manager" means the retirement system and its identified representative(s), designated to serve as manager of the Facilities for operations and maintenance purposes under Section 11 of this agreement.
- j. "Joint Payment and Pledge Agreement" means the agreement to be entered into between the Department of Finance and the Boards providing for payment of the principal and interest on the bonds issued under the authority of the 1999 Law.
- k. "Land" means that parcel of land legally described as: Lots 2 and 3, Block 2, Empire Builder Industrial Park, Ramsey County.
- 1. "Pension Building Fund" means the fund established by the Department of Finance pursuant to the 1999 Law into which the proceeds of the bonds will be deposited.
- m. "Pension Building Debt Service Fund" means the fund established by the Department of Finance pursuant to the 1999 Law, to which the Boards will transfer funds sufficient to pay principal and interest payments due on the Bonds issued under the 1999 Law.
- n. "Pension Building Operating Fund" means the fund to be established by the Department of Finance on behalf of the Boards which will receive any rental income and parking receipts and any additional transfers of funds by the Boards. The Fund will be used to pay all ongoing Administrative Expenses of the Public Pension Facilities.
- o. "Rental Income" means any income received through the lease of rental space to other governmental subdivisions, any income received through the lease of rental space to other state agencies under Section 16B.24, and any income from any rent paid by the Board(s) for the use of rental space which is in excess of the space initially allocated under Section 5 of this Agreement.
- p. "Rental Space" means any portion of the Public Pension Facilities which is not required for the Retirement Systems' direct use and is available for lease to other state agencies or political subdivisions.
- q. "Retirement Systems" refers collectively to the Minnesota State Retirement System "MSRS", the Public Employees Retirement Association "PERA" and the Teachers Retirement Association "TRA".

SECTION 5. THE RETIREMENT SYSTEMS' OWNERSHIP INTERESTS IN THE PUBLIC PENSION FACILITIES

The Boards estimate that approximately 73% of the Public Pension Facilities useable square feet will be used or occupied exclusively by the Retirement Systems. The remaining 27 percent of the Public Pension facilities' space will not be directly occupied or utilized by any of the Retirement Systems and will constitute Rental Space, with 7 percent of that Rental Space expected to be leased to the State Board of Investment and 20 percent of that Rental Space expected to be leased to other state agencies or governmental subdivisions.

a. Based upon the amounts of space each retirement system intends to use and occupy, the Boards have determined and have agreed to the percentage amounts which represent each Retirement System's proportionate share of the total space intended to be used exclusively by the Retirement Systems on the date of occupancy of the facilities. Those percentages are:

Minnesota State Retirement System: 20.4% Public Employees Retirement Association: 39.7 %

Teachers Retirement Association: 39.9%

These percentages represent each Retirement System's OWNERSHIP INTEREST in the Public Pension Facilities.

- b. Included in the percentage amounts allocated to each Retirement System's interest are portions of common areas of the Facilities which will be shared or used by one or more of the retirement systems. Common areas are allocated to, and included in each Retirement System's ownership interest based upon the following agreements as to how shared space will be allocated to each Retirement System's ownership interest:
 - 1. The Boardroom is shared equally; one-third of the total Boardroom space and its use is allocated to the ownership interest of each Retirement System.
 - 2. The Training Center and Computer Training Room are allocated equally between PERA and TRA; one-half of the total Training Center and Computer Training Room space and its use is allocated to PERA's and TRA's respective ownership interests. None of the square footage associated with the Training Center and the Computer Training Center is included in the ownership interest percentage allocated to MSRS. MSRS will rent this space on an as-needed basis.
 - 3. General Storage space is allocated to the Retirement System's ownership interests based upon the actual square footage requested to be used by each: MSRS 200 sq. ft.; TRA 750 sq. ft.; PERA 900 sq. ft.
 - 4. All other common areas and space used by all three Retirement Systems is allocated on the basis of the percentages set forth in paragraph 'a' of this section.
- c. The ownership interests will remain constant throughout the ownership of the Public Pension Facilities unless one Retirement System purchases all or a part of an ownership interest in the facilities from one or more of the other Retirement Systems or unless future legislation requires a change. The use or rental of any of the Rental Space will not change the Retirement Systems' percentage ownership interests.
- d. The percentages set forth for each Retirement System's ownership interest shall:
 - 1. Determine each Retirement System's share of the total amount, if any, required to be contributed by the Retirement Systems to the Pension Building Operating Fund for Administrative Expenses;
 - 2. Determine each Retirement System's share of the cost of any future capital expenditures;
 - 3. Determine each Retirement System's share of the total amount of assets which must be pledged and appropriated to the Pension Building Debt Service Fund in order to pay when due, the principal and interest on the bonds issued under the 1999 Law.

- 4. Determine the fixed asset value of each Retirement System's ownership interest in the Public Pension Facilities to be used for financial accounting, reporting and disclosure purposes;
- 5. Determine the percentage amounts each Retirement System will receive from proceeds derived from the sale or exchange of the Public Pension Facilities.
- e. One Retirement System may sell and transfer a portion or all of its ownership interest to one or both of the other Retirement Systems. All the Boards must approve the sale and, in the event a sale is contemplated, the Boards will request the assistance of the Commissioner in determining the fair market value of the interest proposed to be sold. The percentages that represent each retirement system's ownership interest and participation on the Facilities Management Committee shall be adjusted to correctly reflect the new ownership interests and shall be set forth in an amendment to this Agreement.

SECTION 6. FINANCING.

- a. Pursuant to the Joint Payment and Pledge Agreement, the Boards will periodically deposit into the Pension Building Debt Service Fund their percentage of the total payments required to assure payment of the interest and principal amounts due on the Bonds. Once the Bonds are retired, the Boards will discontinue depositing payments into the Pension Building Debt Service Fund, but will continue to pay their proportionate share of the amounts required to be paid to the Pension Building Operating Fund for the cost of operating and maintaining the Facilities.
- b. A separate account is established as the Pension Building Fund into which the Department of Finance will deposit the proceeds of the sale of the Bonds. These funds are to be used to pay the costs of issuance of the Bonds and costs related to the acquisition and construction of the Public Pension Facilities, including, but not limited to, land acquisition, consulting services, construction, and relocation of the retirement systems to the Facilities when completed.
- c. Rental Income will be deposited into the Pension Building Operating Fund and all ongoing Administrative Expenses will be paid from this account. The Facilities Manager must carry forward any income accruing from Rental Income over and above the annual amount needed to offset ongoing Administrative Expenses to be utilized for future Administrative Expenses. The Facilities Manager is not authorized to expend any funds in the Pension Building Operating Fund above those approved and must administer the budget within the polices and standards adopted by the Facilities Management Committee.
- d. In the event of a shortfall in the Pension Building Operating Fund needed to pay Administrative Expenses, the Retirement Systems shall pay their proportionate share of the shortfall in accordance with the ownership interest percentages set forth in Section 5. Each Retirement System's share of the additional Administrative Expenses must be transferred within a reasonable time to the Pension Building Operating Fund upon notice from the Facilities Manager that the additional funds are needed to cover the shortfall. The Facilities Manager will set and enforce through the provisions of Section 15 if necessary, the time period within which payments must be made.
- e. If a Retirement System decides to occupy space in excess of its initial occupancy space through lease rather than purchase, the additional space will be leased at the rate for Rental Space set and approved by the Facilities Management Committee. The lease payments will be deposited in the Pension Building Operating Fund.

SECTION 7. FACILITIES CONSTRUCTION COMMITTEE.

a. A Facilities Construction Committee ("Construction Committee") consisting of the Executive Directors of each Retirement System is hereby established. If an Executive Director cannot attend a meeting and a decision must be made at that meeting, the Assistant Director of Administration from TRA and MSRS and the Finance Manager from PERA shall attend and vote (the "Designated Replacements"). Major decisions

regarding construction of the Facilities must be agreed to unanimously. If all three Executive Directors or their "Designated Replacements" are not present at a meeting when a major decision is to be made, and the major decision can be delayed without adversely affecting the construction budget or schedule, the decision shall be postponed.

- b. The Facilities Construction Committee is authorized to make all necessary decisions regarding all aspects of construction of the Facilities, except for approval of the final design, which must be presented to the Boards for approval. Upon completion of the Facilities and the resolution of all issues concerned with construction of the Facilities and upon the Retirement Systems occupancy of the Facilities, the Committee will cease to exist.
- c. The Facilities Construction Committee will work with the Commissioner of Finance to develop the Joint Payment and Pledge Agreement, which must be presented to the Boards for final approval before the Bonds may be issued.

SECTION 8. DUTIES OF THE FACILITIES CONSTRUCTION COMMITTEE.

The Facilities Construction Committee shall meet as necessary with the Commissioner and consultants until final occupancy of the Facilities in order to:

- a. Enter into an Interagency Agreement with the Department of Administration regarding construction of the Facilities.
- b. Review legal and covenant issues regarding limitations on the Land.
- c. Prepare and issue a Request for Qualification (RFQ) to obtain a list of interested design/build teams.
- d. Review RFQ responses and select the most qualified candidates based upon experience, technical competence, past performance, capability to perform and other appropriate facts to be requested to respond to a Request for Proposal (RFP).
- e. Prepare and issue an RFP specifying standards and parameters for the design, layout, floor plans and construction of the new Facilities.
- f. Review RFP responses, evaluate proposals, and select design/build team based upon design, cost, quality, aesthetics, and the best overall value to the state pension funds.
- g. Recommend and present the final design of the Facilities to all boards for their approval at a joint meeting of the Boards.
- h. Monitor progress on the project in accordance with the schedule and standards set in the construction proposal and agreement and jointly approve any change orders to the original specifications.
- i. Plan the moving of the three retirement systems to the Facilities in accordance with its completion.

SECTION 9. FACILITIES MANAGEMENT COMMITTEE.

A "Facilities Management Committee" is hereby created to be responsible for assuring the performance of the terms of this Agreement and for the overall operation and maintenance of the Facilities. The Facilities Management Committee shall have such powers as specified herein and as necessary to carry forth the terms and intentions of this Agreement.

a. Membership

The Facilities Management Committee will be comprised of two representatives from each Board. These representatives shall be appointed by each Board at a regularly scheduled public Board meeting and shall be appointed by motion.

b. Meetings of the Facilities Management Committee

The Facilities Management Committee shall hold its first meeting within 30 days of the effective date of this agreement and at least once each year and from time to time as necessary for it to carry out its duties and responsibilities. Additional meetings can be requested by any of the members of the Facility Management Committee as well as by the Facility Manager. Meeting dates shall be set at times all representatives can meet. In the event a representative designated by a Board cannot attend the meeting, that Board's Executive Director shall attend the meeting in the designee's absence and have full voting rights. Representatives shall report the results of each meeting to their Boards at their next regularly scheduled meeting.

c. Voting

- 1. Each representative shall have one vote.
- 2. For decisions regarding maintenance and operation of the Facilities a quorum of six is required and a decision may be made by a majority vote.

d. Improvements to the Facilities/Remodeling

- 1. Before any Capital Expenditure can be made for the Facilities, the Facilities Management Committee, based upon a quorum of six, must unanimously agree to the recommended expenditures. The Facilities Manager will notify the Commissioner of proposed Capital Expenditures and the Committee's authorization for any repairs or improvements to the Facilities.
- 2. Any remodeling or reconfiguration within the office space of each Retirement System is at the discretion of the individual system and its Board of Trustees and does not need approval by the Committee or the Commissioner.
- 3. The Retirement System remodeling or reconfiguring its office space is responsible for paying all costs related to the remodeling or reconfiguration from its own operating expenses. No costs for a Retirement System's remodeling or reconfiguration will be paid for from the Pension Building Operating Fund except as follows: If a Board believes the remodeling or reconfiguration should be included in Administrative Expenses paid for out of the Pension Building Operating Fund, the Facilities Manager must present the project to the Facilities Management Committee for consideration and approval.
- 4. The Retirement Systems must notify the Facilities Manager in writing of any proposed remodeling or reconfiguration of their occupied space, whether leased or owned, within 60 days prior to allowing the work to begin. If the Facilities Manager determines the proposed work could adversely affect the value, structural integrity, utility, mechanical/electrical, or communication functions of the Facilities, the proposed project must be presented to the Facilities Management Committee for approval before work is initiated. Approval must be based upon a majority vote with a quorum of six.
- 5. Notwithstanding the above, no improvements, remodeling or reconfiguration that might adversely affect the value, structural integrity, utility, mechanical/electrical, or communication functions of the Facilities may be undertaken unless the action has been jointly approved by the Facilities Management Committee and the Commissioner of the Department of Administration.

e. Facilities Maintenance

Pursuant to the 1999 Law, the Facilities Management Committee may negotiate with the Department of Administration to utilize the services of its Plant Management Division for maintenance, or may contract for

services with independent third parties.

f. Sale of the Facilities

- 1. So long as the Bonds are outstanding, one or more of the Retirement Systems must continue to own a total of 100 percent equitable interest in the Public Pension Facilities and the Boards must assure that the Commissioner continues to hold full legal interest in the facilities in trust for one or more of the Retirement Systems.
- 2. Upon any legislatively authorized sale of the Facilities, proceeds from the sale are to be allocated exclusively to the Retirement Systems in accordance with their respective ownership interests as defined by the percentages set forth in Section 5 of this Agreement.

SECTION 10. DUTIES OF THE FACILITIES MANAGEMENT COMMITTEE.

The Facilities Management Committee shall:

- a. Set standards and responsibilities for the use and operation of the Facilities not otherwise addressed in this Agreement.
- b. Approve selection of contract proposals for any work.
- c. Establish an annual budget for ongoing operation and maintenance of the Facilities. The total annual budget cannot be exceeded unless approved by the Facility Management Committee.
- d. Set standards and policies for administering the approved budget.
- e. Approve all Capital Expenditures that will be paid out of the Pension Building Operating Fund and all projects undertaken by a retirement system or tenant that might adversely affect the value, structural integrity, utility, mechanical, electrical, or communication functions of the Facilities.
- f. Select the entities to provide maintenance-related activities, services, and supplies. The Facilities Management Committee may decide to contract with independent third parties for such services or may use the services of the Department of Administration, Plant Management.
- g. If additional rental space is available for lease within the Facilities, the Facilities Management Committee shall first inform the Boards of its availability and determine the feasibility of one or more of the Retirement Systems leasing that space before the rental space is made available to other governmental entities. The committee shall notify the Commissioner of Administration if one or more retirement systems intend to lease additional space before any of the rental space is offered to other governmental agencies.
- h. Notify the Commissioner of the approval or rejection of any governmental entity proposed as a tenant by the Commissioner.
- i. Set written policies and procedures regarding parking and the payment for parking at the Facilities.
- j. If found to be desirable, separately contract with public or private providers for the establishment and operation of lunchroom and/or vending services.
- k. Oversee the operations of the Facilities Manager.

SECTION 11. FACILITIES MANAGER.

The Boards designate the Public Employees Retirement Association to serve as Facilities Manager and agree and understand that PERA will delegate the day to day responsibility of managing the operations and maintenance of the

Facilities to its Manager of Finance who will serve as "Facilities Manager" on behalf of PERA and will be subject to the direction and control of the Facilities Management Committee;

- a. The Facilities Manager shall remain an employee of PERA and PERA shall continue to pay the Facilities Manager the salary established for his/her PERA position. The Facilities Management Committee shall determine the value of the services provided by the Facilities Manager and the amount so determined shall be paid from the Pension Building Operating Fund to PERA as reimbursement for salary paid by PERA while its employee performed the duties of Facilities Manager.
- b. If the Facility Management Committee decides at any time to contract for management services for the Facilities rather than using the designated Facilities Manager, all expenses related to the contracted management services constitute Administrative Expenses that must be paid from the Pension Building Operating Fund.
- c. Each Retirement System shall authorize in writing three staff personnel who may contact the Facilities Manager, on behalf of one or more retirement system employees or tenants with complaints and suggestions regarding the Facilities.

SECTION 12. DUTIES OF THE FACILITIES MANAGER.

The Facilities Manager shall:

- a. Coordinate the yearly budget preparation and present the budget recommendation to the Facilities Management Committee for refinement and approval as set forth in Section 14.
- b. Maintain separate accounting for the Pension Building Operating Fund. Prepare annual and "upon-request" financial operating statements for the Facility Management Committee, the legislative auditor, and each of the Boards.
- c. Reconcile the Pension Building Operating Fund on a regular basis, ensuring that Rental Income is appropriately received and that expenses are paid.
- d. Ensure that all billings received accurately represent the work completed under the terms of agreements and/or contracts. Issue payments to vendors when valid billings are received.
- e. When Rental Income does not cover expected Administrative Expenses for the Facilities, calculate the portion owed by each retirement system based upon their percentage ownership interests and submit an invoice to each retirement system.
- f. Prepare Requests for Proposals for services when needed and present vendor recommendations to the Facilities Management Committee for approval. When approved, prepare contracts accordingly.
- g. Act as liaison between all of the Facilities' tenants and service vendors, relaying requests and monitoring vendor performance.
- h. Authorize expenditures within the budget established by the Facility Management Committee.
- i. Perform other duties as requested by the Facility Management Committee.
- j. Manage the day-to-day operations and maintenance of the Facilities.

SECTION 13. DUTIES OF THE RETIREMENT SYSTEMS.

Each Retirement System shall:

- a. Arrange their system's telephone services and pay all charges for installation and telephone usage directly to the telephone company following initial occupancy of the Facilities;
- b. Maintain the premises occupied by their system in a reasonably clean and sanitary condition;
- c. Assume all responsibility for security against theft, vandalism or accidental loss of any kind whatsoever in the spaces solely occupied by their system;
- d. Share responsibility for security against theft, vandalism, or accidental loss of any kind whatsoever in the shared-ownership areas of the Facilities through the purchase of general liability insurance to be paid from the annual budget established for operating and maintaining the Facilities;
- e. Comply with all applicable municipal, county and state laws, ordinances and regulations, and obtain and pay for all licenses and permits (and special use permits, if applicable) as may be required for their use of the Facilities;
- f. Agree that they will not discriminate against any person or persons because of race, color, creed, sex or national origin in furnishing, or by refusing to furnish, to such person or persons the use of any Facilities including any and all services, privileges and activities therein;
- g. Maintain in good repair and condition the space in the Facilities occupied solely by their retirement system and that space shared jointly by their respective agencies including any and all equipment, fixtures or appurtenances;
- h. Agree not to use the Facilities in any way which, in the judgment of the Facility Management Committee, poses a hazard to occupants of the Facilities, or to the Facilities per se, in part or whole, and agree not to use the Facilities so as to cause damage, annoyance, nuisance or inconvenience to other occupants, tenants or business invitees of the Facilities.
- i. Provide heating and air-conditioning consistent with the policies and standards established by the Facilities Management Committee.

SECTION 14. ESTABLISHING THE ANNUAL BUDGET.

- a. The Facilities Manager must meet with the financial management representatives of the MSRS and TRA to establish the appropriate annual budget for operating and maintaining the Facilities. This group will jointly determine the appropriate level of funding required to operate the Facilities. In the event of disagreement among these representatives, the Facilities Manager is to make the final decision regarding the budget to recommend to the Facilities Management Committee.
- b. In April of each year, the Facilities Manager shall submit the recommended budget for the next new fiscal year of July 1 through June 30 to the Facilities Management Committee. The budget will consist of three components:
 - 1. Capital Expenditures as defined in Section 4 must be separately presented for consideration. Costs will be shared by the Retirement Systems in accordance with the percentage ownership interests defined in Section 5 and paid from the Pension Building Operating Fund.
 - 2. Operational Budget are expenses related to operating and maintaining the Public Pension Facilities to be paid from the Pension Building Operating Fund. The Facilities Manager will bill each Retirement System when it is determined that the Pension Building Operating Fund does not have sufficient revenue to cover the Administrative Expenses.

- 3. Parking Fund A separate account shall exist to manage the operation of the parking structure related to the Public Pension Facilities. Any revenue from the leasing of parking spaces will be remitted to the Facility Manager and used to offset depreciation and operating expenses of the parking facility. Any excess will be accounted for separately and must be carried forward to be used specifically to offset expenses related to the parking structure.
- c. The members of the Facilities Management Committee must report to their respective Retirement Systems the amount of funding, if any, which is required to be included in each Retirement System's administrative budget to augment the funds available from the Pension Building Operating Fund in order to meet the operational budget needs of the Facilities.

SECTION 15. DISPUTE RESOLUTION.

Any dispute among the Boards, or the Retirement Systems' representatives regarding their respective duties and obligations under this agreement and any dispute regarding the operation, maintenance or improvement of the Public Pension Facilities, whether specifically addressed in this agreement or not, shall first be presented to the full Facilities Management Committee for resolution pursuant to the procedures set forth under Section 9 of this Agreement.

- 1. A dispute shall be presented to the Committee by submitting a written request to the Facilities Manager, with notice to each Retirement Systems' Executive Directors, which shall set forth the nature of the dispute and the resolution requested.
- 2. The Facilities Manager shall convene a special meeting of the Committee to be held within 30 days following receipt by the Manager of the written request.
- 3. The Committee may resolve disputes regarding operations and maintenance of the Public Pension Facilities by majority vote of the full committee.
 - a. If the Committee cannot agree on a decision regarding operations or maintenance, the Committee shall, in accordance with the 1999 Law, request the Commissioner to appoint a representative from the Department of Administration's Real Estate Management Division to serve as arbitrator of the dispute with the authority to issue a written resolution which shall be binding on the Committee, the Manager and the retirement systems.
 - b. In the event a Board, Retirement System or their representatives refuse to abide by a decision properly falling under the authority of the Commissioner, enforcement of the terms of the decision may be pursued in the appropriate judicial forum without resort to further mediation or arbitration.
- 4. Any dispute regarding a Board's or retirement system's individual duties and responsibilities under the terms of this agreement or the 1999 Law shall be subject to the mediation and arbitration provisions of Section 16 of this Agreement.

SECTION 16. BREACH OF AGREEMENT.

If a Board, Retirement System or their representatives believe that another Board, Retirement system or their representatives have not fulfilled their duties and obligations under this agreement or the 1999 Law:

- 1. A written claim of breach may be served by that Board's Executive Director upon the other Retirement Systems' Executive Directors and upon the Facilities Manager.
- 2. The Facility Manager shall confer with the Commissioner or the Commissioner's designated representative or legal counsel, to determine if the claim is a breach or should be subject to the Dispute Resolution processes defined under Section 15 of this Agreement.

- a) If the Facilities Manager and the Commissioner believe that a breach has occurred, the steps defined in this section are to be followed.
- b) If it is determined that no breach has occurred, the steps for resolving a dispute, as defined in Section 15 are to be followed.
- 3. The Facilities Manager shall promptly serve notice on the Executive Director of the Retirement System against which a breach is alleged demanding that within 30 days, either:
 - a) The claimed breach be remedied, or
 - b) A written statement be served on the Facilities Manager and the Executive Directors of the other Retirement Systems setting forth the reason and facts upon which it is claimed that a breach has not occurred.
- 4. A breach may be remedied by:
 - a) Mediation any Board or Retirement System, acting through its Executive Director, may elect to initiate mediation proceedings in an attempt to resolve the dispute. Mediation shall be initiated within 15 days following receipt of a written response submitted pursuant to paragraph 3(b) herein and shall be conducted by an independent third party, duly qualified as neutral and listed on the Minnesota State Court ADR Roster, and agreeable to all participating Retirement Systems. Costs of the mediator shall be shared equally by the Retirement Systems which all agree to participate in any mediation so initiated and will inform their representatives of the extent of their authority and upon which terms they would have the authority to commit the Retirement System to a mediated settlement; or
 - b) Arbitration if not resolved following the first scheduled mediation session, any alleged breach of the terms of this Agreement shall be subject to binding arbitration. Arbitration shall not be initiated until 15 days have passed following the first mediation session. If mediation has not been initiated within 15 days of the receipt of a response issued under paragraph 3(b) herein, and then arbitration may be initiated by a Retirement System following the expiration of that 15-day time period. Arbitration shall be before a neutral arbitrator agreeable to all Retirement Systems. If they cannot agree upon an arbitrator, then the dispute shall be submitted to an arbitration panel consisting of three persons, one chosen by the Retirement System alleged to be in breach, one chosen by the Retirement System claiming breach, and the third chosen by the Facilities Manager. Cost of the arbitration panel shall be shared equally by the participating Retirement Systems. Arbitration shall be held at the Public Pension Facilities and shall be considered to be subject to the Open Meeting Law. It shall be conducted pursuant to the provisions of Minn. Stat. Chapter 572 and any decision rendered by the arbitrator or the arbitration panel shall be binding upon the boards and retirement systems in accordance with Minn. Stat. Chapter 572.
- 5. If the arbitration process establishes a breach, the retirement system responsible for the breach shall be liable to reimburse any expenses incurred by the other retirement systems participating in the arbitration and any damages incurred by the breach. If no breach is determined, costs shall be shared equally by the participating Retirement Systems.

SECTION 17. AMENDMENTS TO AGREEMENT.

Amendments to this Agreement may be proposed by any of the Boards or their Executive Directors or by the Facilities Management Committee. Any amendment proposed must be unanimously approved by the Facilities Management Committee before presentation to the Boards for consideration. Each Board must adopt the proposed amendment before it can be signed and become effective. Any amendments so approved shall be in writing, and shall be executed by the appropriate representatives of all three Retirement Systems.

SECTION 18. ASSIGNMENT.

No Retirement System shall assign or transfer any rights or obligations under this Agreement without the prior

written consent of the other retirement systems and no assignment may be made except to the extent permitted under the Joint Payment and Pledge Agreement.

SECTION 19. INSURANCE; LIABILITY.

- 1. It shall be the duty of each Retirement System to maintain insurance or self-insurance, at their sole option, on their own fixtures and personal and office property. If a Retirement System does not purchase insurance, the other Retirement Systems do not assume any liability or responsibility to compensate for any loss or damage
- 2. Each Retirement System will be responsible for its own acts and the results thereof, to the extent responsibility is fixed or authorized by law, and shall not be responsible for the acts of the other Retirement Systems or tenants.
- 3. The Facilities Management Committee, in consultation with the Department of Administration's Risk Management Division, shall determine the appropriate level of general liability and property insurance coverage needed to protect the total ownership interest in the Facilities. Premium costs incurred for appropriate level of insurance are to be paid for from the Pension Building Operating Fund as part of Administrative Expenses.

SECTION 20. AUDIT.

The books, records, documents, and accounting procedures and practices of the Retirement Systems relating to the maintenance and operation of the Public Pension Facilities are subject to examination by the Legislative Auditor.

SECTION 21. RECITALS.

The Recitals constitute an integral part of this Agreement and are incorporated into the body of this Agreement hereby.

SECTION 22. CONFLICT.

In the event of a conflict between the terms of this agreement and the Joint Payment and Pledge Agreement, the terms of the Joint Payment and Pledge Agreement shall control.

SECTION 23. HEADINGS.

All headings are for informational purposes only and are not to be used in construing or interpreting this Agreement.

SECTION 24. EXECUTION AND COUNTERPARTS.

This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 25. CARE OF THE PREMISES.

The Retirement Systems shall occupy the Facilities, maintain the premises in good condition making such improvements as may be required to do so and shall not commit or suffer to be committed any waste upon or within the Facilities. No alterations shall be made without the written consent of the Facilities Management Committee.

IN WITNESS WHEREOF, the Boards, through their authorized and empowered Executive Directors, have caused this Agreement to be duly executed with the intent to bind their respective Retirement Systems to its terms and conditions.

Minnesota State Retirement System	Teachers Retirement Association
By:	By:
David Bergstrom, Executive Director	Gary Austin, Executive Director
Date:	Date:
Public Employees Retirement Association	
By:	
Mary Most Vanek, Executive Director	
Date:	